

CURRENCY PROBLEMS AND POLICY OF THE SOVIET UNION

BY

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PREFACE

THE present work first appeared in the Russian language in the beginning of 1924, when the Soviet currency reform was still in process of being carried through.

In the preparation of the English edition the original text has been completely revised and all details which would not be likely to prove of interest to English readers have been omitted. On the other hand, however, new material has been added and Russian monetary history brought up to the beginning of the current year.

// The book is devoted to a brief description of the monetary system which prevailed in Russia prior to August, 1914, the changes in this system produced by the War and by the Revolution of 1917, the endeavours of the Soviet Government to introduce a State economy on Communist lines and to do away with money, the work of financial reconstruction which commenced in 1921, and finally, to a description of the measures which followed and brought the monetary circulation of Soviet Russia to its present stage.

The monetary conditions described in this book are to a certain degree similar to those which prevailed in some countries of Central Europe in the post-war period, but they are in many respects unique. Bearing this latter circumstance in mind, we have included in the present edition certain details, which are likely to be of interest only to students of monetary theory and history. But at the same time our consistent endeavour in preparing this volume has been to present our work in such a manner as will enable those who only seek to gain information as to the present monetary position in Russia to find in it all the material they may require.

L. N. YUROVSKY.

Moscow, April 15th, 1925.

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CHAPTER I

MONETARY CIRCULATION BEFORE THE OCTOBER REVOLUTION

Introductory

A sound and stable monetary circulation is the product of an economic culture of a comparatively high degree of development; and historical experience has abundantly proved that it can only be maintained for any length of time in a country which is economically strong.

In the history of the St. Petersburg epoch the phases when the monetary circulation was healthy were but episodes of brief duration.

"Only those who are over forty years of age can still remember the time when our system of monetary circulation was sound" were the words used by S. J. Witte in the Council of the Empire in 1895—on the eve of the introduction of his own reform—referring to the system introduced by Kankrin, Minister of Finance under Nicholas I.

In Kankrin's day it would have been impossible to say even of those past the age of fifty that they could recall a period when the monetary circulation in Russia was sound. For a decade and a half during the 19th century a circulation based on the single silver standard, with the silver rouble as the unit, had prevailed; and again at the turn of the 20th century during two decades there had been maintained a monetary circulation based on gold. The rest of the time the Government was almost invariably engaged in a struggle against the general monetary disorganisation.

The last period "when the monetary circulation was in order," i.e. at the close of the 19th and early in the 20th century, is one of particular interest to-day, not only because in the years preparatory to, or coincident with, the carrying out of monetary reforms it is natural to turn

to experiences of the recent past, but also for a reason which from a practical point of view is yet more important, namely, because the course, which the work of reforming the system of monetary circulation started in Soviet Russia in 1922 has taken, leaves no doubt as to the intention of returning—at least, in some of its most essential features—to the system of circulation established some three decades ago, as the result of Witte's reforms.

It is this consideration which prompts us to begin the present treatise with a brief description of the principal characteristics of the monetary system which existed in Russia before the War.

Monetary Circulation on the Eve of the War.

The monetary unit was the rouble, the gold value of which was legally fixed at 17.424 dolynas pure gold. This monetary unit was embodied in gold, silver and copper coins and State credit notes. Gold coins were minted in denominations of ten and five rouble pieces. This money was of full value, a ten rouble piece containing 1 zolotnik 78.24 dolynas,* and a five rouble piece 87.12 dolynas pure gold, and was legal tender to an unlimited amount.

Owing to the free right of mintage, the value of the gold coins was linked up with the value of their metal content, and gold money as money of full value formed the basis of the established system of monetary circulation. The value, however, of the metal in the silver and copper coins was less than their face value. Two kinds of silver coins were minted, those with a smaller proportion of alloy—in denominations of 1 rouble, 50 kopeks, and 25 kopeks (the minting of these latter was discontinued in the later years) and those with a higher proportion of alloy in denominations of 20, 15, 10 and 5 kopeks. The market value of the silver contained in the former amounted to some 66 to 68 per cent. of their nominal value, and in the latter to some 30-34 per cent. Silver coins were also legal tender, but only up to limited amounts; in the case of 1 rouble, 50 kopek and 25 kopek coins—up to the amount

* One dolyn is equal to 0.683375 grm.; one zolotnik contains 98 dolynas.

of 25 roubles; for 20, 15, 10 and 5 kopek coins—up to 3 roubles. Government offices, with the exception of the Customs, were, however, legally compelled to accept silver coins without restriction as to the sum. Copper coins were minted in denominations of 5, 3, 2, $\frac{1}{2}$ and $\frac{1}{4}$ kopeks. The value of the metal they contained was equal to about one fifth of their face value. They were legal tender to an amount not exceeding three roubles. The provisions of the coinage statutes laid down that the quantity of silver in circulation should not exceed 3 roubles per capita of the population.

As regards the issue of copper coin, special authority for the purpose had to be obtained by the Minister of Finance. Obviously, the right of free mintage did not apply to any of these token coins.

Notes of the State Bank.

State credit notes constituted a liability of the State Bank and took the place of what is commonly known as bank notes. The nature of this liability consisted in the Bank being compelled to pay on demand for each rouble in credit notes presented to it, 27.424 dolyns pure gold. Whilst entitled to issue credit notes to an unlimited amount, the Statutes of the Bank compelled it to keep a sufficient metal reserve to ensure unrestricted convertibility. In this respect its Statutes were particularly stringent, the legal minimum cover of its issues being higher than that of all other central Banks, with the exception of the Bank of England. The sum of the gold held as a cover was not allowed to fall below 50 per cent. of the aggregate figure of credit notes in circulation, whilst every note issued over and above 500,000,000 roubles had to be fully backed by a corresponding quantity of gold. The reason for these rigorous restrictions lay in the passivity of the Russian balance of payments, and in the desire to promote the largest possible measure of confidence in the circulation. Experience has, however, shown that, whilst under more or less normal conditions this system proved excessively onerous, under quite abnormal conditions no system whatever could have saved the monetary unit from depreciation.

The State credit notes, constituting a liability expressed in terms of gold and fully backed by gold, were, like gold coins, legal tender up to an unlimited amount.

Quantity of Money in Circulation.

Such, in brief, were the principal foundations of the Russian system of monetary circulation on the eve of the war. This system prevailed throughout the former Russian Empire, excluding Finland, but including the Central Asiatic vassal states, Bokhara and Khiva.

The following table shows the money in circulation on January 1st, 1914:

	Million roubles.
Credit Notes of the State Bank ..	1,665
Gold Coin	494
Silver with a low proportion of alloy ..	123
Silver with a high proportion of alloy ..	103
Copper Coin	18

The second figure shows a somewhat larger amount of gold coin than was actually in circulation, being based on the returns of the Mint, in which no account is taken of the drain of gold coin from circulation. In any event the aggregate amount of money certainly exceeded 2,000,000,000 roubles, of which total 1.6-1.8 milliard fell to the territory which now constitutes the Union of Soviet Socialist Republics.

Gold Cover.

In the first half of 1914 the gold reserves of the State Bank exceeded by a considerable figure the legal minimum, surpassing even the aggregate of credit notes in circulation. According to the State Bank's balance sheet of July 1st, 1914, the latter reached a figure of 1,630,000,000 roubles, whilst the gold reserves of the State Bank both at home and abroad amounted to 1,743,000,000 roubles.

The Effect of the War.

This system of monetary circulation, which had weathered the financial embarrassments connected with the Japanese War, was sapped in its foundations immediately upon the outbreak of the World War. The very

first days of it witnessed the end of the free convertibility of credit notes with gold; and permission was granted for further issues of credit notes for the purpose of discounting the Treasury's short term obligations. The law of July 27th, 1914, authorised the State Bank to effect this discount "to such extent as may become necessary to satisfy the requirements arising from the state of war." How great these requirements were may be seen from the subjoined figures of the Budgets of the War period. (We include in the following table the figures of the 1917 Budget, which, whilst maintaining the features of the War period, also bore the characteristics of the opening stages of the Revolutionary regime).

Year.	Revenue	Expenditure	Deficit	% of Deficit.
	in Millions Roubles.			
1914	2,961	4,859	1,898	39.1
1915	3,001	11,562	8,561	74.0
1916	4,345	18,101	13,756	76.0
1917	3,039	27,607	24,568	81.7

If it is remembered that on the eve of the war—on July 1st, 1914—there were but 1,630,000,000 roubles of credit notes in circulation, it will be clearly realised what a damaging effect such deficits were bound to exercise on the monetary situation of the country. Whilst the issue of paper money was not the only means of coping with the deficit, this being largely achieved by means of loans, the printing press was nevertheless made to play an important part in this respect, as the following table shows:

Year.	Deficit.	Notes Issued	Ratio of Note Issue to Deficit.
	in Millions Roubles.		
1914	1,898	1,283	67%
1915	8,561	2,670	31%
1916	13,756	3,480	25%
1917	24,568	16,403	73%

During the war several decrees were published authorising increases in the note issuing rights of the State Bank. The first decree, issued on July 27th, 1914, authorised an increase in the note circulation by one and a half milliard,

that of March 17th, 1915, by a further two and a half milliard, that of August 22nd, 1915, by three and a half milliard, that of August 29th, 1915, by five and a half milliard, and that of December 27th, 1916, by six and a half milliard roubles.

Although loans were called upon to play an increasingly important part in covering the budgetary deficits, these rapidly growing note issues could not fail to introduce a profound disorganisation in the monetary situation of the country.

The First Effects of the Increased Note Issues.

Yet the opening stages of the war, in spite of the large issues of paper money in 1914, did not witness any very appreciable fall in the purchasing power of the rouble. The closing of the frontiers had shut Russia off from markets which in normal times served as an outlet for her grain and raw materials, with the result that the prices of these commodities at first actually experienced a drop. Besides this, the changes which the war had wrought in the national economy, far from causing a contraction in the trade turnover, at first actually forced it to expand. In 1914 the productivity of agriculture had not yet decreased, and the gathering in of the harvest was successfully carried out. The work of industrial firms, adapted to the altered requirements of the market, was greatly intensified, owing to the demand for war equipment and supplies. Furthermore, the market also expanded owing to the fact that many products, formerly consumed by the producers themselves, were now thrown on the market, i.e. became commodities.* This followed as an outcome of the mobilisation of the male population of the villages. That which the peasant had formerly consumed from his own produce was supplied to him now that he had entered the ranks of the Army—frequently in larger quantities than he had formerly been able to obtain—by the State, which bought the products on the market. Finally, after the convertibility of the credit notes had been suspended, gold coins began to be hoarded, and the

* A "commodity" in the sense in which the term is used here is a product which is produced for the market. *Tr.*

deficiency thus created had to be made good by the issue of paper. The increase of the total of credit notes in 1914 by 1,283,000,000 roubles did not consequently at first cause inflation, and prices did not indeed begin to rise until 1915. On the average, the mean index figure of prices during 1914 amounted to but 1.02; that is to say, during the first year of the war prices rose by 1 per cent. only. Such a rise is, of course, quite insignificant.

The Early Stages in the Depreciation of the Rouble.

As time went on, the economic and financial consequences of the war began, however, to exert an always increasing influence on the level of prices, i.e. on the purchasing power of the rouble. The average index number for 1915 amounted to 1.30, showing an increase in prices of 30 per cent. above the 1913 level; and by January, 1916, the index figure had risen to 1.43.

- To the national economy, which had not then become adapted to the huge fluctuations which became common at a later stage, this rise in prices proved an acute and extremely distressing phenomenon. The disorganisation of the economic life of the country had indeed already begun; and however modest the degree of depreciation then reached may seem, when judged in the light of subsequent events, its significance must not be gauged from the standpoint of the stage ultimately reached, after war and civil war had produced their successive results.

During 1916-1917 prices continued to rise, the index figure soaring from month to month. In January, 1917, it stood at 2.34, in February at 3.10, and in March at 3.15. In other words, by the time of the February events the value of the rouble had decreased to a third; and on the eve of the *coup d'état* its purchasing power was equal to but 32 kopeks. By this time it was already obvious that there could be no return to the pre-war system of monetary circulation based on the restoration of the full purchasing power of the paper rouble. The indebtedness of the State during the first two and a half years of war increased by almost 17 milliard roubles, of which foreign loans amounted to about 8 milliards, and long and

short-term internal loans to some 9 milliards. Under no circumstances was it therefore possible to expect that the country would be capable of amortising this indebtedness with full-value roubles, or of redeeming the ten and more milliard roubles of credit notes, which had been issued by the State Bank. But although the impossibility of restoring the paper rouble was even then quite apparent, no one could have foreseen, of course, how far this depreciation would proceed. The depreciation of, not three times, but fifty milliard times the face value, which ultimately occurred, could scarcely have been contemplated either at the time or even later, at the very height of the revolution.

Increase in the Volume of Money in Circulation and Revenue from Profits on Note Issues.

One circumstance is, however, worthy of attention. The quantity of paper money in circulation amounted on March 1st, 1917, i.e. about the time of the February* Revolution, to 31,786,000,000 roubles, as against 1,665,000,000 roubles on January 1st, 1915, thus showing a sevenfold increase. Yet prices during the same period rose only 3·1 times. In other words, the purchasing power of the money in circulation on March 1st, 1917, or what has come to be termed in Russia "the real value" of the money, amounted to some 3,800,000,000 roubles, whilst on the eve of the war the quantity of money in circulation amounted to a little over 2,000,000,000 roubles. The value of the money in circulation had consequently increased almost twice over, in spite of the fact that a part of the national territory was occupied by enemy forces. This tremendous growth in the demand for money afforded the possibility of extracting huge amounts of revenue by means of the printing press, the aggregate sum of which in real roubles amounted to 5,400,000,000. In the first two and a half years of the war the issue of notes yielded more than the whole of the subsequent period of inflation; and more than half of the revenue thus yielded in the latter period was obtained in 1917. What then was it that made these huge issues possible?

* March, according to the Gregorian Calendar.

The first factor, as we have already pointed out, was the disappearance of metallic money from circulation. The first to become the object of hoarding, and to disappear from circulation, were the gold coins. In a few months' time silver with a low percentage of alloy began to vanish, and towards the summer of 1915 the smaller silver coins began to grow scarce. By the beginning of January, 1916, there was, in fact, scarcely any metal in circulation, and in order to replace it and to overcome the acute shortage of small change, notes in denominations of 1, 2, 3, 5, 10, 15, 20 and 50 kopeks were issued.

The second factor was the general economic disorganisation that the protracted war brought in its wake, which reduced the importance of credit in the national economy, and concurrently the use of credit instruments. Although their prevalence in Russia had always been considerably less than in countries with a highly developed monetary system, they nevertheless played an appreciable part in the total volume of monetary transactions. This change in the methods of payment was also met by new issues of paper money.

The third factor—and this was apparently one of paramount importance—was the fact that the paper notes themselves were largely hoarded by the population, and chiefly by the peasantry. The growth of the deposits with the Savings Banks alone is proof enough that there was no uneasiness at the time as to holding savings in the form of money in spite of its growing depreciation.

The aggregate figure of deposits in the Savings Banks rose between July 1st, 1914, and January 1st, 1917, to from 1,704 to 3,741 million roubles, thus showing an increase of 120 per cent. The placing of money on deposit is not naturally tantamount to its withdrawal from circulation, and the figures are only adduced to prove that confidence was still sufficient to allow the population to keep their savings in the form of paper money.

The peasantry in particular, confronted with exceptionally favourable market conditions for all manner of agricultural produce, were assiduously saving money by putting aside their surplus credit notes; and this confidence lasted not merely up to 1917, but throughout that

year and in 1918 and partly even in 1919. Although it is not possible to assign any even approximate quantitative value to this phenomenon, it doubtless proved one of the chief factors which enabled the State to pursue its note-issuing policy.

The Period of the Provisional Government.

Prior to the February Revolution, however, the possibilities of raising revenue by means other than the printing press were still considerable; nor was recourse had to the latter course in its full extent until the following period, namely, at the time of the Provisional Government.

The paper money in circulation, which on March 1st, 1917, amounted to 11,786,000,000 roubles, increased by November 1st, 1917, by 10,560,000,000 roubles to a total of 22,446,000,000 roubles.

The accounts of the State Bank had by this time reached such a state of confusion that published particulars of the note issue in 1917 were continually wide of the mark, and big corrections had subsequently to be made. The position was no doubt complicated by the fact that at the end of the summer of 1917 local returns ceased to be received regularly by the Bank. However that may be, during eight months more notes were issued than during the whole of the war period up to the time of the February Revolution. Indeed, from March 1st to November 1st the amount of money in circulation increased by 90 per cent. The progressive economic disintegration was rapidly heading the country towards complete collapse. The productivity of labour decreased, transport was becoming paralysed. Larger and larger financial subsidies were required to keep the war industries going, the revenue was shrinking and the State expenditure growing at a rapid pace. Finally, the Liberty Loan issued by the Provisional Government produced but poor results. Hence the portion of the budgetary deficit covered by means of fresh note issues rose from 25 per cent. in 1916 to 73 per cent. in 1917. Nor was the Provisional Government able to confine itself to the issue of credit notes of the former patterns. In the face of the need of always

greater issues, the old processes of printing proved altogether too slow. New credit notes were consequently issued in denominations of 250 and 1,000 roubles and Treasury notes in denominations of 20 and 40 roubles (so-called "Kerensky" notes), which were small in size and printed on large sheets of paper which were issued by the State Treasury, uncut.

Under these conditions of economic disruption, in spite of the peasantry continuing to hoard the notes and the growing tendency to replace credit transactions by cash deals, the requirements for currency began rapidly to decrease. The real value of the total volume of currency in circulation, which, calculated according to the index number of commodity prices had amounted to 3,741,000,000 on March 1st, fell by November 1st to 2,200,000,000, and whilst the quantity of currency in circulation increased by 90 per cent., prices on the average rose by 224 per cent.

Subsequent note issues yielded results, which relatively were progressively poorer. Yet these issues were so great that the total revenue extracted by this means during the régime of the Provisional Government was enormous. It amounted in real roubles to approximately 1,861,000,000, or an average of 233,000,000 roubles per month. The largest revenue returns from note issues fall, in fact, to the period between the February and October* Revolutions, the peak point being reached in October, when they rose to 402.7 million roubles. After that, as we shall show in the next Chapter, there was a rapid falling off in the yield. So drastic a use of the printing press could not but exert a strong adverse influence on the purchasing power of the rouble; and by the time of the October Revolution the latter had shrunk to a tenth of its former value. The pre-war system of monetary circulation was indeed dead and buried.

* November, according to the Gregorian Calendar.

CHAPTER II

TOWARDS A MONEYLESS SYSTEM OF ECONOMY (1917-1921).

Towards the close of 1917 the monetary system was already so impaired that under no circumstances whatever was its early rehabilitation to be contemplated. The actual conditions with which Soviet Russia was faced in the first four years of her existence, both in the political and in the economic field, were, however, such that the monetary circulation was destined to undergo yet further deterioration. It obviously falls beyond the scope of this treatise to dwell in detail on all these conditions, but it is nevertheless necessary to trace, if only in brief outline, those which exerted a direct and potent influence on the country's monetary system.

The fundamental ideas which underlay and guided the economic policy of 1918-20 did not establish themselves, or at least did not take concrete shape immediately; but towards the close of this period they became moulded into a definite system, the gist of which may be inferred from the resolutions of the Communist Party and other conferences and congresses, speeches and legal enactments, of the period.

The Government, aiming at the complete abolition of all capitalistic relations, and generally of all relations inherent in a commodity and money economy, was endeavouring to build up an economic order in which money was to become altogether superfluous.

Production and Distribution according to a General Plan.

The entire national economy was to be socialised. The output of the State and Co-operative undertakings and the surplus of agricultural production (after the requirements of the producing peasants had been satisfied) were to be assigned to a common store, and distributed from there in accordance with a general plan based on

the requirements of the State and the class principle. The open market, with its free play of prices, was regarded as an obsolescent economic phenomenon, incompatible with the economic system which was now to come into being. It was to be tolerated only in so far as small scale production did not fully lend itself to socialisation and State regulation.

The methods of distribution according to a general plan, the satisfaction of the consumers' requirements by a system of rationing and those of the producers by deliveries against special warrant, were gradually to supplant the free market and eventually lead to its complete abolition.

Distribution of Goods and Services without the Intermediary use of Money.

The exchange for money of the output of the State undertakings and of the raw materials which were being collected by the People's Commissariat of Supplies, as well as monetary charges for the services of public bodies, were gradually losing all significance. * The use of money was indeed opposed to the fundamental principles of this new economic order, and was becoming void of all practical utility. The consumers of the products of the State undertakings, public bodies, etc., were chiefly the workers and officials receiving wages from the undertakings, public bodies, etc., in question. Furthermore, the distribution, in so far, and for so long, as it continued to be effected on a monetary basis, took place at fixed prices, which lagged more and more behind those of the free market. These fixed prices did not represent the real equivalent of the goods delivered and the services rendered, and their value for accounting purposes was purely conventional.

The Government, therefore, began to effect a transition to a free distribution of goods and services. Towards the end of 1920 the legislature definitely adopted this standpoint, and the Decree of the Council of People's Commissaries of October 12th, 1920, instructed the People's Commissariat of Finance to take the requisite steps for the abolition of payment for the use of the postal and telegraphic services by all State undertakings and Public bodies, as well as for the use of telephones, water supply,

drainage, gas and electricity, for the abolition of payment for fuel supplied by the Central Fuel Board, and goods supplied by the People's Commissariat of Supplies, and also for housing accommodation by State workers and officials in nationalized and municipalized dwellings. The abolition of payment signified not merely the discontinuance of payments in cash, but precluded also any form of settlement by means of book entries.

The free list given above was further extended at a later date by a decree which, amongst other things, established the free right of travel on the railways and waterways.

Abolition of Taxes.

Inasmuch as all products were obtained by the State organisations without payment of money, taxes on output and even on consumption were becoming useless, and indeed to a large degree impossible. By abandoning the system of a money economy, the State was *ipso facto* forced to abandon at the same time the system of monetary taxation, and it actually began to do so.

In 1918-19 work was still proceeding for the adaptation of the old taxation system to the new economic conditions. Taxes were being partly reformed and partly abolished. Towards the end of 1920 the question of the continued existence of the taxation system was raised; and the collection of taxes was actually discontinued in accordance with an enactment of the All-Russian Executive Committee of February 3rd, 1921. This was, it will be noted, on the very eve of the transition to the New Economic Policy.

The Monetary Budget.

According to official estimates, the revenue derived from monetary taxation in the Budget of 1918, as computed from the index figures of commodity prices, amounted to 153.2 million gold roubles; in 1919 to 10.2 million roubles; in 1920 to 0.2 million roubles; and in 1921, when the taxation system was already in process of restoration, to 3.7 million roubles. These figures, however, refer to the estimated, and not to the actual, revenue. The figure for 1918, in particular, includes the

estimated proceeds of the Special Revolutionary Tax, which was only partly collected.

Monetary revenue was thus consistently disappearing from the State Budget, and note issues were increasingly becoming the only source for covering monetary expenditure. But the need for money, although more and more restricted, did not completely disappear. The war could not be carried on by means of such supplies alone as were yielded by the grain monopoly and the nationalised industries, and obtained through requisitions and confiscations. Nor was money only necessary for the purposes of the war. It was partly needed also (since the system of a moneyless economy was never completely carried through) for the maintenance of all branches of the State Administrative Apparatus, as well as in the financing of transport and industry. Under the existing circumstances the sole means for covering this monetary expenditure was the issue of notes, which thus remained necessary, although in the State economy, as a whole, money came to play a secondary rôle towards the end of the period in question.

State Budgets of the Period of War Communism.

The student of Russia's economic life in the first revolutionary years will probably never succeed in estimating with any satisfactory degree of accuracy the results of the State's economic management during this period. The more the idea of the necessity of establishing and maintaining a single uniform economic system, comprehending and controlling all stores and newly created wealth gained away, the more did the practical difficulties in the way of its realisation prove insurmountable. Such figures as may be quoted from the Budgets of 1918, 1919 and 1920 can only serve to illustrate a few interesting tendencies. They cannot in any sense be regarded as providing even an approximate reflection of the actual scope and conditions of the State economy.

For the period between 1918 and 1922 the People's Commissariat of Finance is not only without any final returns as to the extent to which the estimates were exceeded or otherwise; it cannot even produce sufficient

data as regards the actual amount of revenue collected or expenditure incurred. The attempts which have been made by means of various hypothetical calculations to arrive at anything like probable figures of the scope of the State economy during these four years and the extent of its deficits, show that any work in this direction is well nigh hopeless. We will, however, quote one figure arrived at by S. A. Golovanoff, an authority on budgetary affairs in contemporary Russia, which, although a very relative figure, nevertheless makes it possible to form some idea of the relation which was established between the income and expenditure of the State. S. A. Golovanoff estimates the entire budgetary revenue of 1920 at 1,726,000,000 gold roubles. This was a budget, neither in the pre-revolutionary nor in the contemporary sense of the term, as it was framed to include the entire gross revenue of the nationalised branches of the national economy. However great may have been the fall during 1920 in the productive forces of the country—and it was sufficient no later than the following year to cause the transition to the New Economic Policy—this figure probably rather under-estimates the true position, as the State expenditure of that period was not met solely out of income, the economic life of the country being maintained in no small degree at the expense of the earlier accumulated capital of transport and industry. However that may be, the proportion of money in this total of 1,726,000,000 gold roubles of revenue is placed by this same authority at 126,000,000 or 7·3 per cent. This 7·3 per cent. was almost entirely derived from note issues, which were chiefly used to provide the money part of wages. One should, therefore, guard against exaggerating the importance of the note issues in the Russian State economy in the period of War Communism. They doubtless played a great part in balancing the Budgets in the years of the Civil War and the carrying through of the policy of War Communism; but they assumed a far greater significance later—at the time of the re-introduction of a monetary system. It would indeed give an utterly fantastic picture, both as regards the character of the Budgets and the national economy as a whole in the

revolutionary period, if these qualifications were ignored, and conclusions based on the statistics of the note issues. Greatly as the nation's requirements were curtailed during these years of hardship and difficulty, the assumption that all the State's necessities could have been met by the issue of new paper money alone is obviously untenable. A systematic note-issuing policy indeed only proved possible, because it was accompanied by a determined and equally systematic transition to a moneyless economy, money in the hands of the State playing only a subsidiary rôle in the balancing of the Budget.

The above observations are a necessary preliminary to any study of the Russian monetary circulation in the period of War Communism.

Issues of Paper Notes.

• We have already seen that the quantity of paper money in circulation amounted on July 1st, 1914 (i.e. on the eve of the outbreak of war), to 1,603.4* million roubles; that by March 1st, 1917 (towards the outbreak of the February Revolution), it had risen to 11,786.3 million roubles; while by November 1st, 1917 (at the time of the October Revolution), it had attained a total of 22,446 million roubles. Prior to the February Revolution some 20 milliard roubles of notes had been issued for the financing of the war. To this figure the Provisional Government, during its eight months' régime, added approximately another 11 milliards. Thereafter the issuing of notes passed into the hands of the Soviet authorities, and during the first four years of the Soviet Government's existence the figure of notes in circulation increased almost from month to month. The total at different periods may be seen from the following table:

At November 1st, 1917	22,446 million roubles.
At January 1st, 1918	27,312 "
At January 1st, 1919	60,764 "
At January 1st, 1920	225,014 "
At January 1st, 1921	1,163,596 "
At July 1st, 1921	2,346,139 "

The aggregate figure of notes in circulation had thus increased during this period approximately 200 times. The growth in the volume of currency in circulation proceeded, on the whole, at a steadily increasing rate, the average monthly increase amounting in 1918 to 7 per cent., in 1919 to 12 per cent., in 1920 to 15 per cent., and in the first half of 1921 to 12 per cent.

The ideas on monetary circulation which then still held sway in Russia were vastly different from those which became established later, and this rate of increase therefore in the note issue seemed at the time prodigious. Subsequent developments were to bring about a tremendous growth in the rate of increase. But even before this, owing to the growing disease of money—the note issue actually experienced a contraction in the first half of 1921 as compared with 1920—the price level was being forced up more rapidly than the money was being put into circulation. Whilst the total note issue increased during the forty-four months under review by 200 times, prices during the same period rose 8,000 times, i.e., at an eighty times faster rate.

This growth of prices at a pace more rapid than the increase in the volume of money in circulation, although it did not occur regularly each month, is yet, on the whole, characteristic of the entire period. Nor are the reasons for this phenomenon difficult to find. The turnover of trade was continually contracting, and new paper notes, coming as it were within a narrowing circle, were bound to crowd more and more thickly on each other in this always shrinking space. That this process did not develop uninterruptedly was due partly to the seasonal contractions and expansions of the turnover, as a result of which the summer and autumn months between July and October were usually the most propitious for the note issue, and partly to the changes in the expanse of territory in which the Soviet notes circulated as a result of the developments of the Civil War. Thus the year 1919 was characterized by a rise in prices which was particularly large as compared with the then prevailing rate of increase in the note issue, for the reason that this year witnessed the largest contraction in the territory which came under

the rule of the Soviet authorities. In the second half of 1920, as a result of the victories of the Red Army, the Soviet territory on the contrary expanded, with the result that new issues exerted a relatively slighter influence on the price level.

A striking turn for the worse occurred in the first half of 1921, under the influence of the fundamental process which had been developing throughout the period—the process of the deliberate narrowing of the sphere of the monetary circulation.

The Real Value of the Total Volume of Circulating Media.

The real value of the money in circulation may serve to show the extent to which money still had a place in the national economy. The quantity of money required by trade is not necessarily identical with the value of the goods circulating on the market and paid for in cash. Other factors to be taken into account are the extent to which cash is supplemented by credit instruments and the rapidity of circulation. If the former of these two factors had lost all its significance in Russia owing to the abolition of credit institutions, the influence of the second factor proved of paramount importance. Nevertheless, the real value of the money in circulation is the best available gauge for our purpose. The real value of all the circulating media (calculated on the basis of the index number of commodity prices*) is given in the following table:

At November 1st, 1917,	2,200·6 million roubles.	
At July 1st, 1918,	488·4	"
At July 1st, 1919,	152·9	"
At July 1st, 1920,	62·9	"
At July 1st, 1921,	29·1	"

Removes from Note Issues.

The fall in the real value of the money in circulation which took place in the middle of 1921 was so considerable that the goal of the abolition of a money economy was almost reached. Under these conditions the monthly

* The index numbers of prices used throughout this book, unless otherwise stated, are those compiled by the People's Commissariat of Labour.

revenue extracted by the Treasury from the note issues was obviously also bound progressively to shrink. It amounted on the average in index number (according to the Index Number of Labour Statistics) during:

Nov.-Dec.,	1917, to	163.1	million roubles.
First half of	1918, to	68.1	"
Second ..	1918, to	25.2	"
First ..	1919, to	19.3	"
Second ..	1919, to	18.1	"
First ..	1920, to	10.1	"
Second ..	1920, to	10.2	"
First ..	1921, to	5.6	"

The lowest yield of the note issue was in July, 1921, when it produced barely 3,135,000 roubles. If one deducts from this paltry sum the expenses of note printing and the cost of the upkeep of the entire Treasury apparatus, and if, finally, one considers the value of the notes not at the moment of their issue by the Printing Department, but when they first came on the market, it will be apparent that the game was not worth the candle to the State. Such, indeed, was the view taken by a considerable number of leaders of the country's economic life on the eve of the transition to the New Economic Policy.

The Renaming of Money and New Patterns of Paper Tokens.

During this period the foundations of the monetary system itself had not undergone any change, although certain measures were adopted which reflected the new views as to the part to be played by money in the national economy. In particular, the money was renamed, the object being to show that the Government was now attributing to it a different significance from that which it had previously borne. The acute shortage of money and the technical difficulties of printing new notes were, in the first place, instrumental in causing the Government to put into circulation the Bonds of the Liberty Loan which had been issued by the Provisional Government.

New notes of simplified patterns were issued in the subsequent years; and in 1929 the so-called "reckoning tokens of the Russian Socialist Federal Soviet Republic" were issued in place of credit notes, and this

appellation was generally retained until the introduction of the New Economic Policy.

As the new notes were added to the old issues which remained in circulation, the currency came to consist of a multiplicity of different forms of paper money, and this, in spite of the disappearance from circulation of the notes of smaller denominations, which had lost all purchasing power. Not counting the bonds, coupons, and notes of the Treasury, altogether seventy-eight different issues of paper money were officially in circulation. Actually, however, the number was considerably less, since not only the pre-revolutionary Treasury notes, but all notes in denominations below 1,000 roubles had lost all purchasing power. Towards the middle of 1922 the rouble had depreciated by approximately five to six million times, and a note of 30,000 roubles (or 5 roubles of the 1922 pattern) had consequently but the purchasing power of a pre-war kopek. As a result of the exchange of the older notes for newer ones, the non-issue of the older patterns when they came into the hands of the Treasury, etc., a considerable number of different patterns of notes disappeared altogether from circulation. Yet the variety still remained great and caused considerable inconvenience. Only in 1922 (Decree of the Council of People's Commissaries of June 28th, 1922) were all the notes of the pre-revolutionary issues, and those issued by the Provisional Government and during the period of War Communism, definitely withdrawn from circulation. The quantity of notes required was so large that their printing had to be carried on in several centres—Moscow, Leningrad, Penza, Perm, and Rostoff on the Don. The number of workers engaged at the note printing presses amounted on January 1st, 1921, to 13,606 persons.

Abolition of Formal Restrictions on Note Issues.

The formal restrictions on the issue of paper notes had virtually ceased to be operative immediately after the October Revolution. The officials of the State Bank endeavoured at first to keep within the bounds of the authorised issue; but all such efforts were soon abandoned.

The Decree of October 26th, 1918, increased the Bank's right of issue up to a total of 33.5 milliard roubles, thereby sanctioning issues which had already taken place *ex post facto*. The Decree of the Council of People's Commissaries of May 15th, 1919, abolished all formal restrictions and gave permission to the Financial Department to issue paper money "over and above the limits established by the Decree of October 26th, 1918, to the extent of the actual requirements for currency of the national economy."

The Attitude of the Authorities towards the Disorganization of the Monetary System.

The monthly average revenue in real values derived from note issues (which in 1918 had amounted to several tens of millions of gold roubles, and in 1919 was still a full ten million gold roubles, and but a little short of that figure in 1920) fell in the first half of 1921 to a few million roubles. These were but paltry figures, and they were indicative of the "dying off" of the monetary economy. Up till the beginning of 1921 such an end was, indeed, the direct aim of the economic policy. The Soviet Government was building up an economic order, in which money in the old sense of the term was to be no longer required. After a period of hesitation, it finally adopted a policy which was uncompromisingly directed towards the definite abolition of money. The All-Russian Soviet National Economy Congress, which sat in Moscow during the last few days of 1918 gave expression to the new attitude towards money, which it formulated in the following words:

"The development of the social reconstruction of economic life requires the abandonment of capitalistic relations in production and the elimination in the last instance of any and every influence of money in the relations between the various economic elements. The uprooting of private financial undertakings, and the concentration of the fundamental branches of production, and of the functions of distribution in the hands of the State, offer sufficient grounds for the systematic disestablishment of the monetary circulation to the extent to which it has hitherto prevailed."

More emphatic still, in a sense, was the programme of the Russian Communist Party, adopted at its eighth Congress in March, 1918:

"In the first period of the transition from Capitalism to Communism," runs paragraph 15 of this programme, "while production and distribution on Communist principles have not been fully organized, the abolition of money is impossible. Under these conditions the bourgeois elements of the population continue to make use of money which remains in private possession, for the purposes of speculation, for gain and the robbing of the 'working classes.' Basing itself on the nationalisation of the banks, the Russian Communist Party aims at the carrying through of a number of measures which will extend the sphere of moneyless settlements and prepare the ground for the abolition of money."

In 1920 one of the chief inspirers of the economic policy of the period, J. Larin, summed up the position of the money economy and its further prospects in the following words: "The continual 'dying off' of money increases in proportion to the growth in the organisation of the Soviet economy. Money as the only measure of value no longer exists. Money as a circulating medium can already be abolished to a considerable extent. Money as a means of payment will cease to exist when the Soviet State can free the workers from the necessity of flocking to the Sukhareff Market. - Both the one end and the other come within the limits of our anticipation, and will be realized in practice in the next few years. Money then will lose its significance as a treasure and will only remain what it actually is—coloured paper."

In the later years both theoretical thought and financial practice were systematically directed to the attainment of this desired end.

Settlements without the Use of Money.

Primarily the problem consisted in replacing cash payments by so-called "moneyless settlements," i.e., by book entries. The difficulties which had to be overcome were of a technical nature. They arose out of the fact that the problem had to be solved on a very large

scale under conditions of extreme disorganisation in the accountancy of all undertakings and their perpetual re-organisation. Since the practice itself of settlements by means of book entries was well known in the capitalist economy, the chief question was one of adapting old and familiar methods to new conditions. The Decree of the Council of People's Commissaries of May 2nd, 1918, made it incumbent upon Soviet undertakings and officials to pay in all the money held under their supervision to the People's Bank (which was formed by the union of the former State Bank with all private credit institutions) or the State Treasury, and laid down that all payments should be made by means of drafts and cheques.

Only small sums were allowed to be held back for small transactions and for officials' incidental expenses when travelling on behalf of their departments.

The enactment of the Supreme Economic Council of August 13th, 1918, called on all the nationalised undertakings to hand over their output to their respective Managing Boards, who kept account of production, and handed out to the industrial concerns the requisite equipment and raw materials: in which connection it was specifically laid down that "the settlement for products so delivered or received is to be effected by means of book entries without the use of money."

All settlements with consumers—Soviet organisations and bodies were likewise to be effected by means of book entries. The Decree of the Council of People's Commissaries of January 23rd, 1919, laid down that mutual adjustments between all Soviet central and local organisations and undertakings should be effected by means of book entries "without the use of money." The Decree of January 6th, 1920, extended these provisions to co-operative undertakings.

The Abolition of the Free Market.

Soviet bodies and undertakings were allowed to purchase their supplies from private hands, only in the event of their being unable to obtain them from the respective Soviet concerns which produced or distributed such products, and their right of so doing was hedged about

by a number of formal restrictions. The Decree of the Council of People's Commissaries of July 15th, 1920, virtually suspended this permission, its object being to put an end as much as possible to the existence of the free market.

The Decree stated that all Soviet and public undertakings, bodies and organisations requiring supplies should address their requirements to the respective Soviet distributing bodies, any purchases by these undertakings and bodies on the free market being henceforth prohibited. Those special State organisations, which were allowed to make purchases in the open market, were compelled to do so at prices fixed by an *ad hoc* Commission attached to the Workers' and Peasants' Inspection Board.

The Re-organisation of the Financial Department.

The proceeding re-organisation of the sub-departments of the People's Commissariat of Finance was designed to adapt them to the carrying out of their chief function, that of recording the settlements between Soviet organisations. The People's Bank of the R.S.F.S.R. was rapidly changing from a credit institution into a kind of Central Clearing Office of the Republic, and was becoming more and more fused with the Commissariat of Finance, until it was finally abolished in the beginning of 1920, when the task of issuing notes was also transferred to this Commissariat. The re-organisation was of a purely formal character involving no substantial changes, since the People's Bank had by now ceased to carry out any of the functions of a credit institution.

A resolution, passed during its second session by the All-Russian Central Executive Committee on June 18th, 1920, as an outcome of the report of the People's Commissariat of Finance, was entirely permeated with the idea of the abolition of the monetary system, and formulated accordingly its instructions to the Commissariat as follows:

"Considering that the activities of the People's Commissariat of Finance are now (1) to carry out such a simplification of the apparatus of the Commissariat of Finance both in the centre and locally as will enable it to become transformed into a book-keeping department

of the Proletarian State, (2) to transform the former State Budget into a unified Budget of the R.S.F.S.R., and (3) to endeavour to establish moneyless settlements with a view to the total abolition of the monetary system—an activity which is fully in harmony with the fundamental problems of the economic and industrial development of the R.S.F.S.R. . . . "

The All-Russian Central Executive Committee required, in fine, that adequate measures should be taken for the realization of the scheme of the economic administration which had been mapped out.

A Stable Unit of Account (the Labour Unit).

But there was another side to the problem of disposing of the monetary circulation, which proved incomparably more complex. No solution was ever found, nor even the broad principles for a solution.

The thesis on the financing of industry submitted to the Soviet National Economy Congress in January, 1920, contained the following clause: "In view of the excessive instability of the monetary unit and the unit of account (the rouble), it should be made incumbent on the organisations entrusted with the keeping of economic accounts to establish a unit of account for the Budget of the country, adopting as a basis of measurement a unit of labour."

The question was referred to a special commission, attached to the Supreme Economic Council, and was assiduously discussed in Russian economic literature of the day.

Without entering here into the question as to whether the problem generally admitted of a solution, we shall confine ourselves to saying that the extensive labour expended upon it produced no scheme capable of practical fulfilment nor, indeed, any positive results of even academic interest.

The New Economic Policy which was soon after introduced removed the question from the sphere of practical issues of the day, and the theoretical disquisitions were soon discontinued.

The Practical Outcome of the Policy.

But although the cardinal question as to the unit of account remained unsolved—and without its solution no rational economic system could of course be constructed—money was consistently disappearing from circulation and its rôle in the State Budget decreased from year to year, and from month to month. In this respect the goal which had been set was indeed being rapidly approached.

The real value of the notes issued in January, 1921, as calculated according to the Index Number of Labour Statistics amounted to but 6·8 million gold roubles. In February the figure rose to 7·6 millions, but began to fall again after that. March merely produced 6·4 million roubles, April 5·9 million roubles, May 3·9 million roubles; and June 3·1 million roubles. This was the lowest amount, but the whole series of figures for the first half of 1921 conclusively show that the money part of the Budget had altogether receded to a secondary rôle.

The real value of all the money in circulation amounted on July 1st, 1921, to but 29·1 million roubles, having thus dwindled to three-quarters of one per cent. of the value of the total volume of the monetary media in circulation on the eve of the February Revolution.

Far from considering it in its interests to produce an increased demand for money in the country, the Government systematically adopted new measures to bring about its contraction.

The Decree of the Council of People's Commissaries of July 25th, 1920, made it compulsory that all cash funds held by any private individual exceeding in their aggregate a sum greater than the minimum standard wage unit multiplied by twenty—the minimum standard wage unit multiplied by 20 represented some twenty pre-war gold roubles—should be paid into the holder's account with one of the State pay offices.

All these measures were designed to minimize the part played by money in the national economy: and the disintegration of the money economy was indeed in full

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swing when the exhaustion of all the economic resources of the country made it necessary to effect a change in the Government's economic policy, and the steering-wheel of the Revolution took a sharp turn in a new direction.

THE RESTORATION OF A MONEY ECONOMY (1921-1922)

Abolition of the Grain Monopoly.

THE change from War Communism to the New Economic Policy, i.e., to that complicated and peculiar economic system which, under the official name of "State Capitalism," became established in the Soviet Republics after 1921, commenced with the abolition of the grain monopoly and the substitution of a fixed food tax for the former practice of requisitioning all the peasant's produce over and above the amount required for consumption in his own household. What the change actually implied was that the peasant now held the right of private property over the product of his labour along with the right of bringing that product into the market. At first these rights were admitted within very narrow limits, but later were gradually extended. The change in the policy of food supply was—it could not fail to be—accompanied by a change in the whole economic policy of the State, and within a comparatively short period a radical transformation took place in the State's work of economic reconstruction. It would be impossible at this instance to go into a detailed description of this change. Only such of its aspects, however, require our consideration here, as bear upon the subject of the present inquiry.

The Reconstitution of the Market.

THE fact that deals on the open market now became sanctioned, had the effect of changing the entire system of the national economy. Products again assumed the character of commodities, regardless of the identity of the producer, and their production and distribution once more became subject to the laws of supply and demand. The category of price, for which in the preceding period, attempts were made to substitute some other category,

resumed the exercise of its old rights. The trade turnover, as it expanded, could not fail to give rise to increased monetary transactions; in other words, money again became a medium of exchange, and the question therefore of restoring a sound monetary system became a problem of paramount importance.

Yet these changes, although swift, did not come about all at once. During the period of transition attempts, which are interesting both from a theoretical and from a practical point of view, were made to steer a middle course, by establishing a system of an exchange of commodities without the intermediary use of money, or the determination of prices in monetary units.

This system was, however, short lived: the inconveniences and the insurmountable obstacles which were involved soon became so obvious, that the return to the use of money won decisively all along the line.

The re-establishment of money necessarily demanded a readjustment of the entire system of the State finances, and the last step in this process of replacement of a moneyless system of economy by a money economy, was the enactment of the Council of People's Commissaries, dated December 12th, 1923, which abolished the collection in kind of the "single agricultural tax" as from January 1st, 1924.

Possession of Money made Legal.

In introducing the new conditions, the first necessary measure was to create the legal premises for the restoration of a money economy. As already stated, during the later stages of War Communism, the very possession of money constituted an offence against the law, and the first legislative act which gave effect to the new policy was the ordinance of the All-Russian Central Executive Committee of June 20th, 1921, granting the right to Co-operative Societies to freely dispose of their monetary resources, and to hold in cash amounts up to ten million roubles, which sum was, by the way, at the time only equal to about 200 roubles gold. The question, however, received a complete solution in the Decree of the Council of People's Commissaries of June 30th, 1921. "Desirous of removing

the restrictions hindering the movement of commodities, and of placing the circulation of money on a healthy basis" . . . the Council of People's Commissaries abolished all restrictions, "as to the sums of money circulating in the R.S.F.S.R. which may legally be held by private individuals and organisations"; and further decreed that "all amounts paid by private persons or organisations into deposit or current accounts, as well as sums paid into the Departments of the People's Commissariat of Finance and to Co-operative Organisations for transfer purposes, shall not be subject to confiscation except upon the adjudication of bodies endowed with judiciary powers," and "shall be paid out on demand and in cash without any restrictions as to the sum." By the Decree of August 16th, the right of the free disposal of money was extended to State undertakings.

Legalisation of the Open Market.

Next came enactments authorising State institutions and undertakings to acquire goods on the open market. The Decree of the Council of People's Commissaries of August 16th, 1921, granted certain categories of State undertakings the right of placing orders for, and of effecting purchases of, the products of peasant handicraft and small scale industries in the open market, and a further decree dated October 4th, 1921, removed the restrictions which had been imposed in the preceding year, namely on July 15th, 1920. It laid down that Soviet institutions charged with the collecting of raw materials, agricultural produce and handicraft products, were henceforth entitled to acquire their supplies in the open market, that when Soviet institutions and undertakings could not be supplied by the food supply organisations out of the State stocks, they also, on certain conditions, were entitled to buy food and fodder at market prices. And, furthermore, it laid down that in the event of the organisations directed by the Council of People's Economy being unable to satisfy fully, within the limits of their authorized estimates, the institutions and undertakings dependent upon them, the latter bodies were authorised to acquire the balance of the goods at market prices, "provided that the

supplying organisation fails to satisfy their demands within one week." This last condition was the cause of a considerable amount of purely formal interdepartmental correspondence, but in the final account did not prevent the Soviet undertakings and institutions from being drawn into a monetary exchange.

Having thus authorised State undertakings to effect purchases on the open market, the next step was to extend to them the right of freely disposing of their production, which in effect was accomplished by the Decree of the Council of People's Commissaries of October 27th, 1921.

The first entry of State undertakings into the open market bore all the features of a spontaneous and sweeping movement, which broke through all the obstacles which had been set up by the legislation of the period of War Communism. The system of supplying industry according to a pre-arranged plan had brought it to a standstill; and the only alternatives which offered were, either to close down the vast majority of industrial undertakings in the country, or to allow them a certain amount of initiative and independence in procuring equipment and raw materials and in disposing of their output. As soon as the change in the entire economic policy of the Government began to take effect, it was the latter course which came naturally to be followed, and the Legislature and the Executive had only to seek for the best means of formalising the new order.

The Placing of State Undertakings on a Financially Independent Footing.

The latter half of 1921 and 1922 witnessed the establishment in its essential outlines of the new legal and economic status of State undertakings engaged in industry, in agriculture, and to some extent in transport. The State declined to finance these undertakings by means of budgetary appropriations or, to put it otherwise, to include their revenue and expenditure as items of the State Budgets and to guarantee to them, at least formally, the ways and means requisite for their operations. In the language of the Soviet law this was termed "the removal from the State Budget," and "the transition to a com-

mercial basis." An undertaking which was placed on a "commercial basis" was allowed a certain amount of capital, as represented by buildings, machinery, materials and cash, and had to conduct its operations, broadly speaking, on the same principles as a private undertaking, except that its activities were subject to the control of the respective People's Commissariats, and that its profits were to be handed over to the State. Such undertakings sold their products and manufactures in the market, and were free from the obligation of supplying goods to the State without receiving payment in money for them. Gradually nearly all State undertakings, with the exception of railways, posts and telegraphs, were organised on these new principles.

The placing of State undertakings on this financially independent footing should, on the face of it, have freed the State Budget of a very considerable burden. But this result was not achieved at once. For in the first place the State undertakings had to be supplied with money and raw materials which were placed to their capital account; and later it became necessary to assist them with long-term loans. Furthermore, the New Economic Policy inevitably brought in its wake a number of phenomena which caused a considerable increase in the money part of the budgetary expenditure.

The Growth of the State's Money Expenditure.

In its early stages the New Economic Policy could not but exert an influence on the level of wages; this, indeed, was to be expected since the implications of the change were not limited to the mere recognition of the principles of a money economy. Implicit in the New Economic Policy also was the renunciation of a number of other tenets which had held sway during the period of War Communism. It involved, for instance, the abolition of the system of compulsory labour, which gave rise to the necessity of engaging skilled employees and workers on the basis of free contract. Furthermore, the primary object of the New Economic Policy was to increase the productive capacity of the national economy, and this could not have been achieved unless the wages had, at

least in the early stages, been raised up to the minimum level of subsistence, below which they had to a large extent declined during the years of Civil War. Moreover, the curtailing of supplies in kind, which was the inevitable result of the output of the State undertakings being sold in the open market, made it necessary that an increased part of the wages should be paid in money and not in kind.

But besides the outlay on wages, the expenditure of the Soviet undertakings naturally include other working expenses, which now, too, had to be paid for in money, and, had, moreover, to be calculated, not at officially fixed prices, but at the prices ruling in the open market, and to be paid not by mere book-keeping transfers, but in cash.

The increase in the State's money expenditure thus made it imperative that new sources of revenue should be found, and no less pressing was the need of it for the restoration of the monetary circulation. The period which had been dominated by the aim of establishing a moneyless system of economy was over, and with its end all the resolutions and enactments passed either by the Communist Party or the Government institutions began to urge with ever-growing definiteness and insistence the necessity of rehabilitating the monetary system of the country. The Ninth All-Russian Congress of Soviets, held at the end of 1921, charged the People's Commissariat of Finance with the task of "carrying into effect with the utmost energy and speed the curtailment and eventually the complete cessation of note issues," and of "restoring a sound monetary system of currency on a gold basis."

Restoration of Payments for Goods and Services.

This clearly involved the necessity of extending the principle of payment for goods or services received to the State economy as a whole, and of restoring a system of taxation. Already as early as August 9th, a resolution of the Council of People's Commissaries had laid down that "with a view to raising the stability of the rouble, a number of measures to make money flow again into the coffers of the State must be adopted, such measures being based on the postulate that the State is unable to render

free economic services to anyone, so long as its resources remain in their present condition, or at least so long as the principal branches of the national economy are not restored to a higher level of productivity." This resolution was followed by a long succession of decrees and ordinances which gradually fully reinstated the principle of payment for goods and services received, the earlier decrees which abolished it having scarcely had time to become fully effective.

In July, 1921, a decree was issued establishing a new Railway Tariff. The first clause of this Decree proclaimed the principle of obligatory payments for transportation, but the new law still left in force the simplified method of settlements as between the State Railways and the other State and Co-operative bodies—a method which was but ill adapted to ensure a proper collection of revenue and was consequently abolished some six months later. In August, 1921, a decree was issued establishing a scale of charges for services rendered by the People's Commissariat of Posts and Telegraphs; another decree in the same month laid down that "all articles supplied by the State institutions to private persons and organisations, including Co-operative organisations, must henceforth be paid for." From September 15th, 1921, payment was exacted for the use of the following services: Water Supply, Drainage, Electric Power, Gas, Municipal Railways and other means of conveyance, Baths, Laundries, Repair Workshops and Chimney Sweeping. Next followed decrees revising the regulations concerning the free supply of food-stuffs and articles of first necessity, re-establishing payment for premises and plots of land let to trading concerns, and so on, until eventually, the principle of payment for goods and services received gained universal application.

Restoration of the System of Taxation.

The restoration of the system of monetary taxation began as early as 1921, and the first tax to be re-imposed was the "Industrial and Trade Tax" (Resolution of the All-Russian Central Executive Committee of June 26th, 1921), which in its original form was somewhat roughly devised. There was scarcely any differentiation between

the types of trading activity, and the tax was chiefly concerned with market transactions. "The Industrial and Trade Tax Law" had consequently to be revised very soon after, namely, in the beginning of 1922. The All-Russian Central Executive Committee and the Council of People's Commissaries in their joint enactment of December 10th, 1921, attempted to introduce some system and order into the efforts to re-impose taxation which were being made by the local authorities and had resulted in the creation of a multiplicity of various taxes. On May 22nd, 1922, the All-Russian Central Executive Committee imposed a "household tax."

In the sphere of indirect taxation, the first step was to introduce an excise duty on wines and spirits. In 1922 excise duties were imposed on tobacco, cigarette paper tubes, matches, beer, kvass, aerated waters, tea, coffee, and their substitutes, sugar, salt, and oil products.

Reconstruction of the State Budget.

Simultaneously with these measures, steps were taken to reform the Budget, and the first rather elementary attempt at tackling the problem resulted in the production of financial estimates of revenue and expenditure for the first nine months of 1922.

The resolution of the All-Russian Executive Committee of October 10th, 1921, required that all State Departments should reduce their estimates of expenditure to "the limits of utmost necessity" and should for this purpose "reduce all their staffs and curtail their programmes." Local expenditure was henceforth to be met out of local funds, which decision thus restored the distinction between the State and Local Budgets. The People's Commissariat for Finance was instructed to submit statements as to the expected revenue and to include in its estimates the "real value of the proceeds to be derived from new note issues." The expected revenue was apportioned among the different Commissariats, and it was according to their respective shares in it that the Commissariat's own estimates were then built up. An attempt was also made to draw up the budgetary estimates in a fixed unit, and the "pre-war" rouble equal in purchasing

power to the rouble of the year 1913) was adopted for the purpose. Its value in terms of Soviet currency was at October 1st deemed to be equal to 60,000 roubles.

This Budget with its stringent curtailment of expenditure came to be called the "Hard Budget." The very first efforts, however, to carry it out revealed how entirely fantastic it was in its conception, and brought to light many serious miscalculations which had been committed in its make-up. In the beginning of 1922 it therefore became necessary to re-cast it completely, and the second effort—the Budget for 1922-23 (covering twelve months from October 1st to September 30th)—though far more practical in its conception, was still largely experimental, and all it finally succeeded in effecting was to provide a rough basis for working up quarterly and monthly estimates.

General View of the Financial Reconstruction.

We cannot stop to analyse in detail the interesting process of reconstructing the Budget and restoring taxation, and will confine ourselves to a cursory examination of the work as a whole. A glance at the first period is sufficient to show how elementary and crude were the attempts to rehabilitate the national finances in the early stages of reconstruction. It must be admitted, however, that this was inevitable since there were practically no foundations to build on. In 1921 not only was there no taxation machinery, but the tax-producing sources themselves had been destroyed and were only gradually beginning to re-appear, and even in 1922 four-fifths of the national economy probably still rested on the basis of a moneyless economy. However that may be, one half at least of the State income was obtained in the shape of produce, since the food tax continued to be collected in kind. As for the drafting of the Budget, and particularly the expenditure side of it, neither traditional methods nor reliable standards were to hand which could have helped in the task. The expedient of forecasting the total budgetary revenue, and of allotting the expected proceeds among all Departments according to such vague criteria as their pre-war expenditure, the alteration in

their relative importance as a result of the Revolution, or the extent of the monetary allotments made to them during the period of War Communism, now seems extremely—nay almost fantastically—crude and puerile. But it is scarcely probable that any other method would have proved more effective in the circumstances.

The most that could be expected of these yearly Budgets, which were largely the product of purely theoretical considerations, was that they should more or less conform to the actual facts of the situation. At the same time "practical" work was also being done on the Budget in the shape of the monthly financial estimates. Yet it was only after two years of such work, namely in 1924, that the Commissariat for Finance came within a measurable distance of producing an actually realisable yearly Budget. (We will not here go into the merits or otherwise of the Budget itself which still leaves unsatisfied many of the most vital needs of the country.)

The chief causes which obstructed the carrying out of the budgetary estimates, both yearly and monthly, lay in the rapid depreciation of the currency. These monthly estimates were drafted on the basis of a conventional stable unit, the purchasing power of which was approximately to correspond to that of the 1913 rouble. At the time of the ratification of such estimates the authorities fixed upon a coefficient, which was based on the ruling index number of prices, and was used to determine the amount that was to be paid out in Soviet currency in the encashment of credits; but as this coefficient remained in force during the entire month to which the budgetary estimates referred, whilst payments against credits opened were effected in the beginning, in the middle or at the end of the month, and were frequently delayed for long periods owing to the prevailing scarcity of money at the Treasury, it was inevitable that there should be in the final account a serious discrepancy between the actual expenditure and the monthly budgetary estimates of it. It was frequently necessary to divide the credits into those payable at once and those allowing of delay, and to make payments from time to time in disregard of the order of priority: and this procedure

could not fail to affect the real value of the sums paid out, as the payments were effected in a depreciating currency.

But crude as the work was, particularly in the early stages, it was conducted with intense vigour, and however severely the branches of the State administration and the national economy may have felt the screw put on by the Financial Department, it cannot be gainsaid that the latter's efforts produced very considerable results in the space of an exceedingly short time; and the further the work progressed, the more did the problem of establishing the currency on a sound basis become the dominant issue. Its importance was evident immediately upon the change over to the New Economic Policy, and it gradually became the foremost amongst all other problems of financial reconstruction and economic rehabilitation. Radical currency reforms applying to the whole of the Soviet Union began at the end of 1922. We shall, however, postpone our acquaintance with the subject until a further chapter, and will deal in the meanwhile with some of the preliminary measures which were adopted to simplify the then existing monetary system and to pave the way for the general Reform.

The 1921 and 1922 Devaluations.

Before the policy of the unrestricted use of the printing press was finally discarded, the Soviet paper currency was twice subjected to devaluation. This did not change the principles of the monetary system, but was limited to a mere reduction of the face value of the currency notes, the growing denominations of which made reckoning and account-keeping increasingly cumbersome. The first change was effected by the Decree of the Council of People's Commissaries of November 3rd, 1921, ordering the issue of new notes of the so-called 1922 pattern, 1 rouble of which was made equal to 10,000 roubles of all previous issues. The reform was extremely ill conceived—not in the sense of its having been productive of any damaging results, but because it fixed a ratio between the old and the new denominations which required most complicated reckoning. The community, accustomed to the old

money, had henceforth to divide all sums by 10,000, and this was fraught with very considerable inconvenience. It is doubtful in fact whether anyone in the country besides the staff of the People's Commissariat for Finance (and not all the members of the latter at that), ever learnt to reckon in the new denominations, whereas the man in the street never grew accustomed to call the 100 roubles note of the 1922 issue anything but a "million"—the name which stuck to it while it remained in circulation. The failure of the new issue was to some extent due also to the fact that the notes of the 1921 issue were not withdrawn from circulation until as late as the end of 1922. Indeed, the sole change of a radical nature which the reform may be said to have introduced was that the paper money of the 1922 issue was given the name of "Soviet money tokens" as against the former name "reckoning tokens," the change betraying the new attitude of mind in matters of currency.

In the following year, namely on October 24th, 1922, another decree followed, providing for the issue of 1923 rouble notes, each one rouble of which was made equal to a hundred roubles of the 1922 pattern, or to one million roubles of all previous issue. As the community still persisted in calling the notes of reduced denominations by their more cumbersome equivalents, and reckoning in the same, the second decree remedied the inconvenience and the population did eventually get accustomed to calling one million roubles by the name of one rouble.

To some small extent the two measures described were also intended to help bring about the return to a monetary unit that would be equal in its purchasing power to the pre-war rouble. This aim, however, was not—not could it be—attained, for the depreciation of the Soviet money tokens was proceeding at too rapid a pace.

Measures for the Unification of the Currency.

If the re-naming of the currency was but a purely formal change, the measures taken for the unification of the currency in circulation throughout the entire Union were, on the contrary, of fundamental and far-reaching importance, in that they constituted a preliminary step towards

the complete reformation of the country's monetary system.

The first of these measures, which refer to the period preceding the inauguration of the New Economic Policy, and were gradually put into force as the territory which formerly constituted an integral part of the Empire again became a part of Russia, consisted in the abolition of local currencies. The account of the results of the financial policy of the period of War Communism, which appeared as an official publication in 1922 under the name of *The Social Revolution and Finance* (published by the People's Commissariat for Finance for the 3rd Congress of the Communist International) sums up these measures in the following words: "The policy of the Soviet Government, with regard to the issues of money made by local Soviet authorities in districts temporarily severed from the centre was usually confined to the discontinuance of further issues, and to the exchange of existing issues of local currency into the Federal money. As regards the local money issued by non-Soviet or anti-Soviet Governments, the Soviet Government used a twofold method: it either recognised such money or declared it null and void. The first method was used in the case of independent border republics which, by means of a revolution, established a Soviet system. In such republics, the Federal money was put into circulation side by side with the local currency. All the currencies issued by the White governments which were actively fighting the Soviet Government were annulled without any compensation."

It was this policy of preserving local currencies in the revolutionary border provinces, which later on compelled the Soviet Government to take measures for winding up or simplifying these systems. As an illustration of this policy we will deal here with the cases of such republics and regions as Turkestan, Bokhara and Khorezma (Khiva), the Federation of Transcaucasian Republics, and the Far Eastern Region.

The Turkestan Currency Reform.

The Turkestan currency reform took place as early as 1920. Thanks to the civil war, Turkestan found itself

cut off from the central Governmental authority. Even as early as 1918 and 1919, decrees issued by the Council of People's Commissaries of the R.S.F.S.R. repeatedly authorized the Turkistan Branch of the People's (i.e. formerly the State) Bank to issue temporary currency notes up to specified amounts. At first this newly created purchasing power, though issued locally, formed an integral part of the Federal currency.

The first of the decrees mentioned above required that the inscription upon the Turkistan currency notes should contain a statement to the effect that they were issued in pursuance of the decision of the Council of People's Commissaries of the R.S.F.S.R., and also, that "the notes were issued by the credit institutions in Turkistan forming part of the People's Bank . . . in the same manner as the Federal State notes, i.e. for banking operations and State expenditure within the limits authorized by the Council of People's Commissaries of the R.S.F.S.R." The Turkistan currency, however, in spite of this direct connection between the Turkistan temporary note and the old Russian rouble, was gradually breaking loose from the Federal currency, which process was inevitable in view of the two independent issues, and the severance of economic ties with the R.S.F.S.R. The last of the decrees mentioned above consequently fixed a definite territory within which the Turkistan notes were intended to circulate. Although the People's Bank of the R.S.F.S.R. was still nominally obliged to exchange Turkistan notes into Federal State currency, even outside the boundaries of this limited region, in practice the rule encountered many obstacles and was seldom enforced.

The Turkistan notes were thus cut loose from the All-Russian monetary system, and their fate proved even more disastrous than that which befell the Federal currency. Nor did the position change for the better after the formation of the Turkistan Soviet Socialist Republic. The Report on the Monetary Reform, submitted in the beginning of 1921 by the People's Commissary for Finance of the Turkistan Soviet Socialist Republic, declared that the "disastrous position of the Republic's finances had become manifest in the middle of 1920. The

extraordinary growth of the Turkestan Budget, and the indescribably rapid fall in the purchasing power of the rouble, many times more rapid than the corresponding depreciation in the R.S.F.S.R., had unmistakably pointed to the fact that Turkestan was on the verge of a financial catastrophe." Nor was this an exaggeration. On January 1st, 1919, the Turkestan issues amounted to 942 million roubles; on January 1st, 1921, to 95,000 million roubles. Thus the increase within two years was a hundred-fold, whereas during the same time the Federal issues increased less than twentyfold. The respective depreciations of the two currencies observed a corresponding proportion.

It was a matter of serious inconvenience for the Turkestan Republic to have a currency depreciating even more rapidly than that of the Federation; and the Turkestan Government came to see that the only way out lay in a unification of the two currencies. After some hesitation the Federal Government agreed to adopt a plan which provided for a replacement of the Turkestan notes by notes of the R.S.F.S.R. of the 1918 pattern, and the question which next arose was at what rate the exchange should be effected.

The following report of the Turkestan People's Commissariat of Finance explains the manner in which the question was settled:

"The markets of the countries adjoining the Turkestan Republic are, from the economic standpoint, of paramount importance to it, and especially so, the markets of Bokhara and Khokhama. A fairly steady exchange rate between Turkestan currency and Federal notes of the 1917 issue ('Kerensky' notes) prevailed for some considerable time in these markets at a ratio of 10 to 1, with but insignificant fluctuations. This fairly high valuation of the 'Kerensky' Note was due to two causes. Firstly, because the 'Kerensky' notes were not 'Soviet' notes, and secondly, because they enjoyed a federal and not merely a local circulation. At the time of the resumption of relations with the Federation, 'Kerensky' notes were the only kind of Federal currency which had been placed on the

Bokhariot market. The first of the mentioned reasons could not be left out of view; but neither could it be ignored that the high rating of the 'Kerensky' notes in terms of local money was due to the fact that they were legal tender throughout the Federation. This latter circumstance naturally suggested the possibility of introducing into Turkestan other Federal notes which stood throughout the Federation on a parity with 'Kerensky' notes; and it was reasonable to suppose that these, when introduced, would exchange into Turkestan currency at the rate of 1 to 10.

"In view of the fact that Turkestan stood in so close an economic dependence on the markets of Bokhara and Khorezma, the Turkestan Commissariat of Finance came to the conclusion that before proceeding to a devaluation of the Turkestan currency, and its replacement by Federal money, it would be expedient to introduce into the Bokharist and Khorezmsian Republics the Federal 1919 notes at the stated rate of exchange. The victorious Revolution in Bokhara, which culminated in the expulsion of the Emir, facilitated the task; and in November, 1920, an agreement was reached between the Commissariat of Finance of the Turkestan Republic and the Revolutionary Committee of Bokhara, which resulted in the introduction of the Federal 1919 notes as the official currency of the Bokhara Republic, ranking at par with the 'Kerensky' Notes. This *ipso facto* resulted in the establishment of an exchange rate of 10 to 1 between the monetary unit of all the Federal issues and the rouble of the Turkestan temporary currency."

During the same month similar measures were adopted in the Khorezma Republic.

The Republics of Bokhara and Khorezma proved the more willing to adopt these measures because they had recently received large quantities of Russian Federal notes.

One of the immediate results of the introduction of the Russian 1919 note in the markets of these Republics, was an improvement in its exchange rate in Turkestan. While, in the beginning of 1920 the Soviet 1918 and 1919 notes were valued in Turkestan at 150 to 200 per cent.

higher than the temporary currency notes of the Turkistan Republic, by the end of 1920 the premium advanced to 500-600 per cent. in Tashkent, and to 800-900 per cent. in Samarkand and Poltoratsk.

In introducing the reform, the Turkistan Government, as already stated, fixed the rate of exchange at 10 to 1, and it was on these terms that the Turkistan temporary credit notes were exchanged into Russian Federal notes of the 1919 issue. In accordance with the then prevailing policy, the Government of the Republic limited the amount in temporary notes, which any one person was entitled to exchange to 3,000,000 roubles, which roughly represented the market value of the inventory of an average peasant holding. To minimise the chances of this regulation being circumvented, it was further provided that no persons under 16 years of age were entitled to present money for conversion.

One curious feature of this reform is worthy of note. The object was to introduce into Turkistan the general Federal currency and, but for special circumstances, the obvious way of attaining this end would have been to establish a definite rate of exchange between the Turkistan and the Federal monetary units, and to effect the redemption of the local currency at this rate without making any distinction between the various types of notes circulating in the R.S.F.S.R. This, however, proved impossible of fulfilment in practice, and the ordinance which decreed the reform definitely prescribed that Turkistan notes were only exchangeable against Federal notes of the 1919 issue, which on the face of it would seem to imply that Federal notes of other issues were debarred from circulating in the territory of the Turkistan Republic. This somewhat remarkable procedure was due to the fact that prior to the devaluation, 3,000,000,000 roubles of earlier Russian Federal notes were received in Turkistan and had been taken over at the ruling rate. This made it impossible to extend the operation of the Decree to all Federal notes generally. But it was equally impossible to prohibit the circulation of other Federal notes; for the main object of the reform, i.e. the unification of currencies, would thereby have been frustrated.

The difficulty was, however, overcome by providing that the redemption of the Turkestan money should proceed by way of its exchange against Soviet Federal notes of the 1919 issue only. Thus by slurring over a difficult point the Federal currency system was effectively extended to the Turkestan Republic. Needless to say that this rough and ready disposal of the difficulty would not have been possible had the monetary system not been completely disorganised and shattered, and mere "details" been of no particular moment.

The currency reform was based on a very simple principle and, after certain minor difficulties had been disposed of, it was duly carried out.

Reform in Bokhara and Khorezma.

The extension of the Federal monetary system to the territories of the Republics adjacent to Turkestan, i.e. Bokhara and Khorezma, took place considerably later, notably in the beginning of 1923. Before the Revolution, two types of currency circulated in Bokhara and Khorezma: the local silver coin, the "tanga" (equal in value to 15 kopeks), and Russian money. After the Revolution, Russian credit notes issued by the Provisional Government made their appearance, followed at a later stage by Soviet notes of the 1919 issue. But the Governments of the two Republics had also begun to issue their own paper money, and this for a considerable time stood at a premium over Soviet notes. This situation was kept up during 1922 by the fact that the Government of the R.S.F.S.R. extended considerable commercial credits to Bokhara. Towards the end of 1922, however, events took a turn unfavourable to Bokhara. The credits granted to her by the R.S.F.S.R. were exhausted; and no new credits were forthcoming. Budgetary deficits were freely met by an unrestricted use of the printing press. Taxation was unproductive of revenue, and the financial position bore no promise of improvement.

At the same time the Bokharist Government was issuing money not only for the purpose of covering its budgetary deficit, but also in order to accumulate a valuta reserve, and especially a silver reserve. This

financial policy was largely dictated by a desire to take full advantage of the independent note issue while it lasted.

The result of such an immoderate use of the printing press became apparent at the end of 1922 when monetary transactions began to be fraught with serious difficulties. At the end of 1922, Soviet money tokens stood at a premium of about 8 per cent. over the Bokhariot currency. In the beginning of February, 1923, the premium rose to 120 per cent., in the beginning of March to 220 per cent., and towards the end of Bokhara's note issuing activities it reached a full 300 per cent. When the question of reform first came under discussion it was seen that the situation was complicated by the fact that the premium on Soviet notes varied considerably in different parts of Bokhara. At the conference held at the Commissariat of Finance in Moscow, representatives of the Bokhariot Government stated that the high premium was current only in Old Bokhara and along the railway line; that the further one went into the interior the smaller was the premium, and that in the more distant vilayets the peasants rated the Soviet rouble on a par with the Bokhariot rouble.

In 1922 the Government of the R.S.F.S.R. was engaged upon the difficult task of securing circulation for the Federal currency in Bokhara on a parity with Bokhariot money; but after this task was achieved new difficulties arose for Russian organisations and undertakings operating in Bokhara through the inordinate use of the note press by the Bokhariot authorities. The Railway, the Post and the Telegraph, which had hitherto accepted Bokhariot money on a par with Soviet money tokens, began to refuse them as soon as they began to depreciate at a rate more rapid than the latter. The Bokhariot Government sought to solve this difficulty by endeavouring to secure circulation for their currency in the territory of the Turkistan Republic. But this was obviously out of the question for it would have amounted to giving Bokhara an unwarranted scope for increasing her note issues. In the end, the Railway, Post and Telegraph refused to accept Bokhariot money altogether, which greatly accelerated its depreciation.

It eventually became clear to the Bokharist Government that the only way out of the difficulty was to discontinue its note issues, and to adopt the uniform Federal currency—a course which it finally followed.

The state of currency in Khoresma was no better than in Bokhara for Khoresma had still smaller resources and her financial system was—if that was indeed possible—still more disorganised than that of Bokhara. Khoresma, however, quickly followed the example set by Bokhara, and brought her currency into uniformity with the Federal Russian system, and the transition soon resulted in a marked improvement in her monetary circulation.

The entire question of the unification of the currencies received its solution at the Economic Conference of the Central Asiatic Republics which took place in March, 1923, and at the Conference held at the Commissariat of Finance in Moscow. It was resolved that further local note issuing be discontinued as from May, 1923, and that the existing issues of notes be exchanged into Russian Federal notes, for which purpose the Central Government placed funds at the disposal of the authorities of Bokhara and Khoresma. It was intended, at first, to exchange Bokharist money for Russian at two distinct rates of exchange, one for districts lying outside the railway zone, and the other for the rest of the country; the idea being to bring the rate of redemption into a closer correspondence with the actual prevailing rates. As the reform progressed, however, the difficulties of drawing a boundary line became obvious; and it also became clear that the exchange could be effected at a uniform rate without provoking any too considerable discontent. It was consequently on these lines that the reform was carried through, the rate for the redemption being fixed at 1 to 3 for Bokhara, and at 1 to 1 in Khoresma. From May onwards the budgetary deficits in both Republics began to be covered by the Federal Government, the local Republics undertaking to remodel their taxation machinery and to put their finances in order.

Reform in Transcaspia.

The history of currency developments in Transcaspia

in the post-revolutionary period is extremely instructive on account of the multiplicity of experiments which were attempted.

There were periods when the entire region possessed a single uniform system of currency, and again phases when some of the constituent Republics resorted to their own independent issues. Nor was this all; for the variety of different currencies which circulated in this territory was richly added to by Russian Imperial and Federal money and foreign currencies, amongst which the principal place was held by the Turkish lira and Russian gold and silver coinage of the pre-revolutionary mintage.

Towards the end of 1922, all the principal Republics forming part of the Transcaucasian Federation, viz., Georgia, Armenia and Azerbaijan, possessed their own monetary systems—a fact which greatly impeded the establishment of normal trading intercourse between the Republics themselves, and between the other parts of the Soviet State and Transcaucasia as a whole. Even had the three prevailing independent currencies shown a fair degree of stability, they would doubtless have exercised a detrimental influence on the normal progress of trading relations. But the existence of three *depreciating* local currencies, circulating side by side with depreciating Federal money, could not but lead to chaos and to a situation which, from the point of view of trade, was utterly intolerable. Local industrial and trading undertakings made tentative efforts to find a way out; generally they resorted to the expedient of effecting their calculations either on the basis of foreign currency or on the basis of the pre-revolutionary gold coinage. But these were mere palliatives and of a kind, moreover, which the central authorities in Moscow could not but regard with the greatest degree of disavour.

The local money of any one Republic was not even legal tender in any other part of the Transcaucasian Federation, and economic intercourse between the constituent member States was in fact conducted as if no political bonds united them.

The need for drastic measures to remedy this state of affairs was realised as far back as in the autumn of 1921,

when the Regional Economic Conference emphatically expressed itself in favour of a unification of the currencies of the Transcaucasian Republics with that of the R.S.F.S.R. The question was raised again in 1922, but for a variety of reasons no practical solution was adopted. One of the obstacles which lay in the way of a settlement was that the Georgian currency showed greater stability at the time than that of the R.S.F.S.R., and that the Republic was disinclined to forego this advantage. But there was also a number of political reasons, which combined to cause the postponement of the project of a radical monetary reform; and when at the end of 1922, a reform was actually adopted, it did not consist in a replacement of the local currencies by Soviet legal tender money (such as had been originally proposed), but in the establishment of a separate monetary system for the entire Transcaucasian Federation.

A new Transcaucasian note was issued to circulate as legal tender in all these Republics. The old Georgian, Armenian and Azerbaijan notes were to be exchanged into these new notes. A decree dated January 10th, 1923, prescribed that the independent issue of money by the three Republics should be discontinued, and the redemption of the local notes into the new currency completed within two months. In the case of Georgia, the new Transcaucasian rouble was placed on a par with the local rouble, and the redemption was carried out on these terms. In Azerbaijan the rate was fixed at 100 Azerbaijan roubles for one Transcaucasian rouble, and in Armenia, at 150 roubles of the local currency for one rouble of the new money. The official ratios (1 to 100 to 150) corresponded to the gold value of the Georgian, Azerbaijanian and Armenian currencies respectively.

Although no legal provision was made to prevent the Soviet money tokens from circulating in the Transcaucasian Federation, scarcely any were ever used there again, as they were not legal tender, and were subject to constant depreciation. However, already in 1923, the old Soviet currency had ceased altogether to be a factor in the monetary relations between Transcaucasia and the other component parts of the Union. For in that year

the State Bank was already issuing Tchervontsi which bore a comparatively steady relation to foreign currencies and were more steady in their purchasing power than Transcaucasian money. Under these circumstances it was only natural that the Tchervontsi should have found its way to Transcaucasia and have gained the same foothold there as it did in other parts of the Union.

This was made the easier as the State Bank granted credit through its branches in Tiflis and other Transcaucasian centres making it a condition that the loans be repayable in Tchervontsi. Nor could the Transcaucasian Federation, with its adverse balance of trade, settle its outstanding liabilities otherwise than by means of the same currency. In this way the Tchervontsi gradually came to be used as the basic currency in Transcaucasian trade and the ideal of establishing a uniform currency throughout the Soviet State, although it had failed to be realized by means of legislative provisions, became partially effected through the State Bank's policy.

If the Transcaucasian notes still remained in circulation this was due partly to the improvement in the economic conditions in Transcaucasia, but chiefly to the same causes which enabled the Soviet money tokens to remain in circulation throughout the rest of the Union for some considerable time after the introduction of the Tchervontsi, namely to the requirements of the trade turnover in money of small denominations.

It was obvious, however, that such a position could not endure, and that it would be finally remedied in the same way as in the other constituent parts of the Union. And such indeed was the course taken by events as soon as the first steps were made to reform the monetary system of the Union. Although these events refer to a period in the history of Soviet finance which we have not so far had occasion to examine, we will conclude (to save the necessity of returning again to the subject of the currency situation in Transcaucasia) by saying that the independent issue of money by the Transcaucasian Federation was discontinued immediately upon the carrying through of the 1924 Financial All-Union Reform.

Reforms in the Far Eastern Region.

We shall now briefly deal with the monetary history of the Russian Far East during the post-revolutionary period. Here the number and variety of experiments were, if anything, even greater than in Transcaucasia.

Each succeeding Government introduced its own system of currency. And, moreover, here the local currency was influenced even to a greater extent than in Transcaucasia by the stable currencies of the adjacent countries. As a result of the economic influence exercised by the neighbouring markets, the Far Eastern Republic by the time of its Sovietisation (and after an unsuccessful attempt to establish a system of paper currency) definitely resolved to retain a variety of currencies, viz. old Russian gold and silver coinage, Japanese Yens issued by the Korean Bank during the Japanese occupation of the Maritime Province, Mexican Dollars which spread from Manchuria, U.S.A. Dollars, etc. The basic currency in the Far Eastern Republic was gold; in the Maritime Province Yens were predominant; while in the rest of the Republic the currency consisted chiefly of old Russian silver coins which were rated, however, not at their nominal, but at their gold value.

The joint Decree of the Central Executive Committee and of the Soviet of People's Commissaries of the Union of Soviet Socialist Republics, dated August 3rd, 1923, made an attempt to bring the currency of the Far Eastern Republic into closer correspondence with the monetary system prevailing in the rest of the Union. This Decree laid down that Soviet money tokens were to be accepted in the Far Eastern Republic in payment of all rates, taxes and duties, and also by all State and Co-operative concerns, at the official rate of exchange. As to the bank notes, these were accepted by all Government offices and State and communal undertakings at their face value (i.e. one Tchervonets = 10 roubles gold). The same Decree made it illegal for any Government, Communal, or Co-operative institution or undertaking to accept or effect payment in any foreign currency, unless for the settlement of accounts with an undertaking domiciled abroad.

These decrees, however, had but little effect on the currency position in the Far Eastern Republic, at least

as far as the penetration of the old Soviet note into the country was concerned. And no wonder. It would naturally be extremely difficult to introduce depreciating money into a country which enjoys a metallic currency. The decrees, however, produced an effect in the sense of driving foreign currency from circulation.

As to the Tchervonets, it was widely adopted by some sections of the trading community, and by the end of 1923 it was already in pretty general use. Thus, through the intermediary of the Tchervonets a link was created with the Union currency, though a final unification of the monetary system was delayed here longer than in any other part of the Union.

It now remains to trace the development of the basic currency of Russia, and to examine its condition during the first period of the New Economic Policy until the appearance of that important new factor in monetary circulation, namely, the bank note of the State Bank. The history of the Soviet money token issues during 1923 will be dealt with in one of the subsequent chapters.

Issue of Soviet Money Tokens.

The quantity of Soviet money tokens which were put into circulation by the State Treasury continued to rise at a rapidly increasing rate. This, as we have already had occasion to mention, was due to the rapid growth in the monetary expenditure of the State which increased in proportion to the re-establishment of a money economy, whilst revenue could not at first keep pace with the growing requirements of the Treasury.

The following table shows the progressive increase in Treasury issues:

INCREASE IN THE TOTAL QUANTITY OF SOVIET MONEY TOKENS IN CIRCULATION.

First half of 1920	..	..	..	..	2.3 times.
Second	..	..	..	..	2.3 ..
First	..	1921	..	..	2.0 ..
Second	..	..	..	..	7.5 ..
First	..	1922	..	..	18.3 ..
Second	..	..	..	..	6.2 ..

After a prolonged period of a steady increase in the total volume of money in circulation, a period which covered the eighteen months preceding the introduction of the New Economic Policy, with an insignificant falling-off in the rate of increase towards the end, we witness, from the very commencement of the new policy, a sudden rapid rise which reached its peak point in the first six months of 1922, that is, towards the end of the first year of the New Economic Policy. Subsequently, the rate of increase diminished considerably, when new factors with which we shall have occasion to deal later, made themselves felt in State finance.

On January 1st, 1923, the total quantity of money in circulation reached 1,994,454,454 roubles.

Rise in Prices.

The issue of money on such a large scale naturally produced a concomitant effect on the general level of prices, which began to rise at a faster rate than during the period of War Communism; and there were months in this later phase of inflation when prices more than doubled. But if we would gauge the economic conditions of this latter period as a whole, we cannot obviously limit ourselves to so broad a generalisation, but should contrast the actual figures, both as regards the quantity of money in circulation and the general level of prices in the two periods under review. The deductions we shall be able to draw from such a comparison are extremely interesting—namely, that in spite of the fact that the increase in the note issues was considerably greater than in the period of War Communism, the effect of these increased note issues on the price level was relatively considerably smaller. The explanation of this is that, whilst prior to the middle of 1921 the new issues came upon a market which was continually shrinking, after that date the process was reversed, and the market began gradually to expand.

This change is revealed in the following figures:

	First Year of New Economic Policy (1921-22).	Preceding Year (1920-21).
Increase in the quantity of money in circulation ..	136.4 times	4.6 times.
Increase in prices ..	72.8 "	9.9 "

During the last year of the period of War Communism the rate of the rise in prices was thus more than double that of the growth of money in circulation, although the output of the printing press was relatively smaller than in the first year of the New Economic Policy when, despite the failure of the harvest, and a much increased rate of note issuing, prices rose at a rate almost twice as slow as the increase in the volume of money. This phenomenon is a most important result of the influence of the New Economic Policy on the monetary circulation.

Real Revenue from Note Issues and Real Value of the Total Volume of Money in Circulation.

In analysing the monetary conditions during the period of the restoration of a money economy, one more aspect of the situation requires attention, namely, the question of the real revenue derived by the Treasury from the note issues, since it is not the nominal value of these issues but the purchasing power of the new notes which alone furnishes a safe basis for comparison.

The results of such an investigation will show that during the months which witnessed an increase in the requirements of the Treasury for money, and a rate of issue hitherto unparalleled in Russia, there was a concurrent increase in the real revenue derived by the State from its note issues.

Thus, comparing the real revenue obtained in the first and last six months of the three years from 1920 to 1922, we find that the respective half-yearly yield for 1920 was 60.7 and 62.2 million roubles, in 1921 33.7 and 115.4 million roubles, and in 1922 123.5 and 171.0 million roubles. At the same time, taking the entire period in question as a whole, there was a substantial increase in the real value of the total volume of money in circulation. Thus, in July, 1921, it amounted to 29.1 million roubles, in July, 1922, to 55.3 million roubles, and in December, 1922, to 83.9 million roubles.

Economic Conditions Characteristic of the Period.

We will now summarise the above brief observations and will add a few details.

With the transition to the New Economic Policy there arose an increase in the Treasury's requirements for money. Income from new sources of revenue was not yet forthcoming, since the State was only just beginning to restore it by introducing the principle of payment for services, and by taking the necessary steps for the assessment and collection of taxes in money.

All this work of restoration could naturally in its early stages yield but modest results; and the State, confronted with the urgent and growing need for money, was therefore forced to make an always increasing use of the note press. Taken at their face value the note issues reached prodigious figures. Nor did the results, in a sense, at first prove unfavourable. Owing to the transition to a money economy the turnover of trade was expanding, and the increasing issues in consequence exerted a relatively smaller effect on the price level than would have been otherwise the case. True, the expansion of the trade turnover did not connote an actual increase in the quantity of goods within the country; but the deciding factor is to be sought in the immediate results attendant upon the transition from a moneyless system of economy. The movement of goods from one undertaking to another again assumed the reciprocal form of purchases and sales with the use of money as a medium of exchange—and not as heretofore in the form of a delivery against warrant, recorded by a book entry. In fact, for the movement of the same quantity of goods an incomparably larger quantity of money now became necessary in virtue of the new system.

Implicit in the restoration of a money economy also was the legalisation of the free market with its uncontrolled prices, which made the officially fixed prices totally ineffectual. The fact that these uncontrolled prices exceeded the fixed ones by a score of times and more, was yet another cause in increasing the demand for money. Finally, as soon as State and Co-operative undertakings were placed on a financially independent footing they were compelled to throw on the market quantities of raw materials and manufactures which they had hitherto held

in stock—a circumstance which incidentally led to a rapid dissipation of the working capital of Industry.

All these factors, operating simultaneously, could not but result in, and did in fact result in, an increased revenue from the note issues.

The favourable character of these results would undoubtedly have been more marked, were it not for a factor which operated in an adverse direction and, gaining in momentum, ultimately nullified the beneficial effects on the monetary circulation of the process which had set in as a result of the transition to a money economy.

This factor was the failure of the harvest and the consequent famine of 1921-22. The sole reason why this calamity did not in fact bring about an immediate monetary crisis must be ascribed to the stimulating effect exerted on the national economy by the restoration of a free market. But important as this influence was, the destructive effects resulting from the failure of the crops, with industry working at one-fifth of its normal capacity, could not be staved off for long. The original impetus provided by the change over to a commodity and money economy with its free prices gradually subsided, whilst the absence on the market of agricultural produce was gradually paralysing the turnover of trade. This contraction of the market necessarily led to a decrease in the demand for money, and consequently to a shrinkage in the Treasury's scope for creating new purchasing power. As the Treasury, however, continued to issue money in large quantities, its revenue from note issues began to dwindle perceptibly, at a rate which forced the Government to use the note presses to the full extent of their producing capacity.

A comparison between the more detailed data of the issue, and of its effects (which are not here given) reveal that clear lines of demarcation divide the entire later period of inflation into three well-defined phases. A revival set in as soon as the effect of the New Economic Policy began to be felt. This phase lasted for four months up to November, 1922. Following upon November a crisis set in which lasted for six months, reaching its height in the first three months of the year 1923, and

gradually subsiding until in May of the same year a certain improvement set in, characterised by a slowing down in the rise of prices, a relatively increased yield of revenue from note issues and a decline of the Treasury's note issuing activities. The factors responsible for the improved conditions which marked the third phase were on the one hand the favourable prospects of the coming harvest, and on the other, the progress of financial reconstruction which first began as far back as the last months of 1921.

Results of Constructive Finance.

Indeed, although the yield of revenue from taxation and State-owned undertakings had formed but an insignificant item in the State income in the beginning of 1922, it had already begun towards the middle of the year to increase appreciably, and to influence the currency situation in two ways, leading on the one side, in spite of the expansion of the total Budget figure, to a relative decrease in the Treasury's requirements for revenue obtained by note issues, and on the other, to increased requirements on the part of the population for money for the payment of taxes, railway and other services. Taking the budgetary revenue by quarters, the year 1922 shows a steady increase of income—a healthy symptom in State finance.

BUDGETARY REVENUE IN 1922.

	Treasury Income.	State Taxes and Local undertakings and Estate.	Revenue from State property.
		In relative percentages.	
Jan-March ..	86.7	8.7	10.6
April-June ..	69.4	8.9	21.7
July-August ..	58.8	13.6	29.6
Oct.-Dec. ..	46.3	24.4	29.3

Had the method of collecting the agricultural tax in money been even partially introduced as early as 1922, while the favourable conditions still obtained, we should undoubtedly have witnessed a marked improvement in currency conditions in the latter half of 1922. Yet even had no such delay occurred, the progressive depreciation of the Soviet money tokens must still have remained too

great to have allowed of the national economy becoming reconciled to it. This was all the more impossible under the actual conditions which prevailed in 1922.

Almost immediately after the introduction of the New Economic Policy, the country began to cast about for a way out of this intolerable position. The old currency, however, could not be scrapped and a new one adopted in its stead; for the Government was not in a position at that time even to entertain the thought of financial reform. Thus it was that the national economy set itself the limited task of finding a new measure of value—a task which it finally solved by turning to gold

CHAPTER IV

THE SEARCH FOR A MEASURE OF VALUE

Effect of a Depreciating Currency on the National Economy.

An economy, which is based on a sound foundation and works at a profit, can exist and develop even at a time when the value of the currency fluctuates and slowly depreciates. Numerous instances bearing out this assertion can be found in the economic history of the past. No economy can, however, exist at all normally under conditions of a depreciating currency, if this depreciation occurs in leaps and bounds reaching several per cent. *per diem*. Under such circumstances it becomes entirely impossible to calculate prices and every transaction assumes the character of a gamble. Nor is it possible to fix wages or the prices of goods, or to prepare a State Budget.

So long as the economic system of Russia was not based on a monetary foundation, the fact that the purchasing power of the rouble was diminishing was only a matter of secondary importance to the State, since the Government was content to calculate the wealth which came into its hands by its material and not its monetary value. But the progressing diminution in the purchasing power of the rouble became an acute problem as soon as radical changes were introduced into the economic system, and the replacement of the inchoate system of output and distribution on Communist lines by a 'commodity' and money economy was a radical change indeed.

The enterprises which had been placed on a financially independent footing found themselves towards the end of 1921 in an utterly hopeless position as far as the problem of price-calculation and the drafting of their balance-sheets was concerned, and the Financial Department had to devise some method for producing a Budget which would be capable of being realised. As a temporary

means of escaping from the difficulty, various enterprises ceased to draw up balance sheets or to calculate the real cost of production. They endeavoured as far as possible not to keep any money in their safes, and converted it into goods. Nor did they sell their goods before making arrangements for the purchase of fresh stocks. Under such conditions they knew at least that they possessed material value, and could assume that no losses were being sustained.

In whatever manner individual enterprises solved the difficulty it was, however, no solution of the problem as a whole, nor could the national economy regard such expedients as satisfactory. A serious attempt was therefore made in the second half of 1921 to find new ways out of the difficulty. This attempt coincided with a sharp fall in the purchasing power of the rouble—a circumstance which determined the further lines for the development of the Russian monetary system.

The Inadequacy of the Existing Currency.

On purely theoretical grounds one might have supposed that the financial system would gradually become stabilised, that the rate at which the rouble was falling would become less rapid to begin with, and that its depreciation would finally stop altogether; that a gold basis would slowly be built up under the paper currency; and finally, that the unit of this currency would be devaluated, i.e. that the currency reform would proceed along lines similar to those followed at the end of the nineteenth century in Russia, though on a vastly different scale. And this, indeed, would have probably happened had the depreciation in 1922 been slight and slow instead of rapid and enormous. Under the existing currency conditions the national economy could not, however, wait for so gradual a reform, and development was in an entirely different manner.

The events in Germany show the extent to which the process that took place in Russia was justified. The gist of this process consisted in the abandonment of the Soviet rouble as a measure of value and the adoption in its stead of an entirely new unit.

The Search for a Measure of Value.

One cannot, however, adopt a new measure of value at random, for the reason that it would not find general acceptance. One can break with one tradition, but one must adhere to some other. That other tradition existed potentially. It was the pre-war tradition which was broken at the time when the acute confusion in the monetary system first took place. The pre-war system of monetary circulation was still fresh in the people's memory, and the national and State economy naturally turned towards it. A most interesting process then began towards a transition from the Soviet money token to the gold rouble as a measure of value—a process which lasted more than two years.

But the gold rouble was no longer an actual unit of currency. Such gold coins as were still preserved amongst the population were no longer legal tender; and though they came to be used again as a measure of value in some districts, this circumstance exerted no decisive influence. Before the issue of bank notes was commenced, the gold rouble, on the basis of which the whole system of economic calculation in Russia came to be rebuilt, was merely an ideal unit, which could be operated with only by special means. The national economy stood in great need of a stable measure of value, and experience disclosed the means of satisfying this need.

The Adoption of the "Pre-War Rouble" in the 1922 Budget.

The first legislative step which marked the change was the Decree of the Council of People's Commissaries of November 25th, 1921, in regard to the financial plan for 1922. This Decree required that the Budget should be fixed in "pre-war roubles." The instructions explaining the Decree were couched in terms which now, after we have grown accustomed to the use of various indices, seem to us naïve. They explained that "the present price in pre-war roubles must under no circumstances be confused with the pre-war price of the corresponding article," that "the present price in pre-war roubles must not be confused with the present-day price of gold on the home

market . . . The average market price of all articles and services throughout Russia (by which the average purchasing power of the present day Soviet rouble is determined), is 60,000 times higher for October, 1921, than the average market price of all articles and services in 1913 (by which the average purchasing power of the pre-war rouble was determined). In order to determine the current price of any article or service, expressed in pre-war roubles, it is necessary to take the average current price of the given article or service in Soviet roubles and divide it by 60,000." In other words, this Decree of the Council of People's Commissaries recommended the adoption of an index number equal to 60,000, and the introduction of a Budget fixed in gold roubles, determined by that index figure and the current market prices. When granting monthly credits which were previously fixed in "pre-war roubles," the People's Commissariat for Finance had to multiply the sum expressed in "pre-war roubles" by a definite coefficient, i.e. by the so-called exchange rate which was fixed every month; and this rate was to be the price-index.

The Extension of Calculations in "Pre-War Roubles."

A few days after the appearance of this Decree, a new one was issued by the Council of People's Commissaries (November 14th, 1921), which did not limit the calculation in "pre-war roubles" to the expenditure items of the State Budget only, but demanded its application in a number of important transactions. This Decree first substituted officially the term "gold rouble" for "pre-war rouble," as may be seen from the following excerpt: "If in a lease contract the parties arrange to make payments for the exploitation of the enterprise these payments must be calculated in gold roubles only . . . The value of equipment, raw materials, fuel, and all manner of consumable property transferred to the ownership of the lessee as well as the amortisation of the property held on lease must be calculated exclusively in a similar manner."

A decree issued on December 15th ordered a revision of all previously concluded agreements in order to bring

them into line with the new methods of calculation. Payments were to be effected at the rate of exchange fixed by the People's Commissariat for Finance, which was determined for each month in advance in round figures. For November, 1921, this rate was fixed at 60,000, for December at 80,000, for January, 1922, at 120,000, for February at 150,000, for March at 200,000. For April the Commissariat for Finance fixed no rate of exchange. As may be seen, these figures were only a rough estimation of the rate at which the rouble was depreciating. The manner in which the rate was adjusted (showing sudden increases of 33½ per cent., 25 per cent., 50 per cent. and 33½ per cent.) could not, of course, satisfy the need for a stable measure of value, and was bound to give rise to abuses and to purely speculative transactions.

At first there was, however, a tendency to give the widest application to this new method of calculation. It was decreed that all State taxes and duties imposed by the central and local authorities should be fixed in "pre-war roubles" (January 18th, 1922). On January 13th, a decree was issued fixing the payment for timber in "pre-war roubles," while two other decrees, one of the same date and the second of February 25th, ordered that payment for railway fares and the transport of goods should also be charged on the basis of "pre-war roubles." The economic conditions, however, of the country were not yet ripe for so rapid a change towards new methods of calculation. The market still calculated in terms of Soviet currency, and the income of individuals and sections of the population did not increase in proportion to the depreciation of the currency and the adjustments in the rates fixed by the People's Commissariat for Finance. Indeed, the changes, which the Financial Department had meant to carry out in the course of a few months by means of legislative decrees, could only be realised, as experience later proved, by a gradual process extending over a period of more than two years.

The Retreat.

In March it was already necessary to retract, and the joint Decree of the Central Executive Committee and of

the Council of People's Commissaries, issued on March 30th, 1922, enacted that "The method of calculating State and local revenue and expenditure, State and local taxation, rates, duties, railway and water transport tariffs, postage and telegraph rates, and other services rendered by State Institutions, Communal services, etc., in pre-war roubles are to be discontinued, and these charges are henceforth to be fixed in Soviet currency." Various State Departments, however, when determining the rate of payment, still mostly based their calculations on some fixed basic unit which was multiplied by a coefficient, determined by the extent of the depreciation of the rouble. This coefficient did not, however, accurately reflect the true index number of prices. It differed for various categories of services and payments, and was based not only on the average increase in prices, but also on the specific nature of the particular branch of industry to which it applied.

Although the country stood in urgent need of a new measure of value, the old system still survived; for it was impossible to make the country adopt so radical a change at once. But the impetus, if too premature to lead to immediate results, had been provided, and the new system in one shape or another came gradually to be introduced in economic calculations. It should be noted that the Decree of March 30th had not abolished the right to conclude agreements based on the gold rouble; it only renounced the idea of enforcing a hasty, general adoption of the new calculation in all cases when payment was due to the State for services rendered, for taxes, etc.

The Rate of the State Bank.

In March, 1922, the Commissariat for Finance published its rate for the last time, and from April 1st onwards the rates of exchange published by the State Bank came into force for all deals concluded on the gold rouble basis. The Decree issued by the Council of People's Commissaries on April 19th, 1922, laid down that all agreements previously concluded by State Departments and private persons, which embodied a stipulation that payments should be made in "pre-war roubles," should as from April 1st,

1922, be discharged at the current rate fixed by the State Bank. In the case of agreements concluded prior to the issue of the Decree, the settlement was to take place at the rate of the State Bank, ruling on the first day of the month in which payment was effected. New agreements could, of course, contain a provision that payment should be made in accordance with the latest current rate of the State Bank, since these rates were published much more frequently than once a month.

The rates of the Commissariat for Finance were fixed for budgetary purposes, and they were not therefore revised more frequently than once a month. And for purely budgetary purposes the rough approximation to the commodity index number which this rate represented was probably sufficient. But the rates fixed by the State Bank were the rates at which the latter bought gold, and this rate (if the Bank wished it to be of any practical significance) had to bear a closer relation to the actual depreciation of the paper rouble, and be subject to more frequent adjustments. And, indeed, in November, 1921, the rate of the State Bank changed twice, in December three times, in January, 1922, five times, in April twice, in May five times, etc. In reality, however, the rates of the State Bank still lagged behind both the prices of gold and the market prices of goods. The conclusion of deals based on this rate, however, safeguarded the parties, in a large measure, against losses due to currency depreciation.

Rates Fixed by Special Committee.

The next stage in the evolution of the methods of rate-fixing was reached in the appointment of a special *ad hoc* committee. By the decision of the Council for Labour and Defence of August 25th, 1922, this Committee was to function as an inter-departmental body whose duty it was to fix the official rate of exchange for foreign currency, the price of precious metals and the rate of the gold rouble. The Decree laid down that the latter must conform to the rates of the foreign currencies. It was the first time that the gold rouble was put again into a definite relation with the monetary units of the World, and that something

approaching the conception of a stable relation between Soviet and foreign currency was introduced into the monetary policy of the country.

Thus, the State itself was encouraging the adoption of the new basis for measuring values, and the new system began gradually to gain acceptance in the country. Nor did its adoption receive encouragement from that quarter alone.

The Problem of Wages.

The wages problem was very acute. As long as wages were paid principally in kind, the question of finding a stable measure of value for that part of them which was paid in money was of no particular moment, all the more so, as the money part of the wages was continually decreasing in proportion to the progressive development of a moneyless system of economy. But as soon as the transition to a money economy became the order of the day, that is to say, as soon as the New Economic Policy came into force, the Trade Unions began to demand an increase in the rate of payment, and the question as to the unit in which wages should be calculated became a live issue. A solution, however, was not difficult to find, and was suggested by past experience. The plenary meeting of the All-Russian Central Council of Trade Unions, which met from February 16th to 19th, 1922, demanded that the value of all the articles which the workers had formerly received free of charge, and over and above their money wages, should now be included in their earnings. Hence, it became necessary to take into consideration the market price of the respective articles when fixing wages, i.e. to make use of some sort of index number of prices. In practice, when concluding wages agreements, recourse was had to various methods of calculating such indices. It was thus that the Fifth All-Russian Congress of Trade Unions, which sat from September 17th to 22nd, 1922, passed the following resolution: "In order to do away with the multiplicity and instability of the different measures of value which are now used for the calculation of wages, this Congress considers imperative the adoption of one general unit

of measurement which would safeguard the workers' wages against the constant fluctuation of market prices and make possible a simple comparison between the present-day and the pre-war levels of wages."

This unit was provided by a selection of representative commodities which formed the basis of the so-called Index Number of Labour Statistics. This Index Number was constructed separately for each Government (Gubernia).

Even when bank notes had secured a wide circulation, and trade was conducted on the basis of Tchervontsi, wages continued to be calculated in "index roubles"; and it was not until the beginning of the Autumn of 1923, that the Tchervonetz began to be used for the calculation of wages.

The Problem of Price Fixing.

The problem of estimating the cost of production and of fixing prices was equally acute. In this connection the difficulties were, however, far greater than in the matter of wages. The methods adopted to estimate costs were in fact almost as numerous as the branches of production. By way of example we may mention two of the methods of calculation adopted in the middle of 1922 in the fuel industry.

The Chief Fuel Board calculated its costs in poods of rye, translating the price of wood fuel into terms of currency on the basis of the market price of the grain. This system of calculating in rye units was adopted because in this particular industry wages formed the principal item of expenditure.

The Administration of the Coal Mines of the Moscow District based its calculation on the cost of all the materials and articles used in the course of production at 1913 prices, and in order to reach a closer approximation to the existing relation between the prices of individual commodities, prices of goods supplied in kind in payment of wages were multiplied by the coefficient 3, while the prices of equipment and material required in the industry were multiplied by the coefficient $1\frac{1}{2}$.

The price of a pood of coal was thus worked out in

entirely conventional units. This conventional price was then converted into terms of Soviet currency at the ruling rate for gold on the Moscow free market. In neither of these instances was the real cost of production arrived at, nor could it, indeed, have been correctly ascertained. The methods adopted were based on doubtful hypotheses and provided a bad remedy for an unsatisfactory state of affairs. There lay within at the root of these attempts a healthy desire to find in the flood of depreciating currency some foothold which might serve as a basis for economic calculations.

Calculations according to the Commodity Price-Index.

How was it possible to determine prices in some stable unit in the face of a rapidly depreciating currency? Soviet money tokens were the only visible medium for expressing prices, which consequently varied from day to day, making it impossible to estimate the cost of production by merely totalling up the amounts expended day by day in payment of materials and wages. The reduction of prices to a stable basis was, indeed, only possible if the extent of the daily fall in the purchasing power of the rouble was known. Then, taking any moment as a starting point, the necessary corrections could be introduced into the sums paid out in the course of production, and selling prices could be adjusted accordingly. Such a means of gauging the changes in the purchasing power of money is provided by an index number of commodity prices. The prices of a representative selection of commodities at some particular time, called the "base year," are collected and are equated, say, to one. If subsequently the index number becomes equal to 100, this signifies that prices have on the average increased a hundredfold or (which is the same thing) that the purchasing power of the money is a hundred times lower.

The index number of prices thus provides a means of finding "a stable measure." If the solution of the problem is approached in this manner, the price as expressed in a stable unit will be found to be the quotient of the actual price divided by the index number, i.e. the index of the depreciation of the currency. If prices are

expressed in roubles, then the stable unit will also necessarily be a rouble, but a rouble the purchasing power of which was determined by the prices ruling in the chosen "base year." In Russia the year 1913 was adopted as the base year in the construction of all index numbers of prices, because the prices which then obtained were still fresh in the people's memory, and, furthermore, because at that time prices had enjoyed a comparatively high degree of stability.

The "Goods Rouble."

The rouble of the 1913 purchasing power was termed the "pre-war rouble" or "pre-war gold rouble." These designations are self-evident. It was also called the "index rouble," because the comparison of the purchasing power of the pre-war and post-revolutionary rouble, or the translation of prices into terms of "pre-war roubles" was effected by means of index numbers. For instance, if the price of 9 lbs. of butter at any given moment was 18,000 roubles, whilst the index at the same time stood at 20,000, implying thereby that prices had risen, and the purchasing power of the monetary unit depreciated 20,000 times, this would connote that the price in non-depreciated, or "index," roubles was $\frac{1}{2}$ rouble (50 kopeks) a lb., and since the cost of goods in terms of "pre-war roubles" was calculated by means of the price index, i.e. the index of the change in the purchasing power of money, the "index" rouble came to be called the "goods rouble."

The index number of prices afforded the possibility of comparing expenses incurred in the course of production on different days, in spite of the fact that the purchase of goods and the payments for services rendered were effected in a depreciating currency whose purchasing-power varied from day to day. Once this expedient became adopted, the practice of expressing prices directly in "index" or "goods" roubles suggested itself as a natural sequence. It was possible to determine that a lb. of butter cost 50 kopeks in terms of the "goods rouble" and to fix its price in terms of legal tender money, according to the price index for the time being. Thus, if the index number stood at 20,000 the price of a lb. of

butter would be fixed at 10,000 Soviet roubles and if the index number rose to 25,000 the price of butter would advance to 25,000 Soviet roubles, and so on.

The Advocates of the "Goods Rouble."

One of the standpoints referred to above was precisely that the "goods rouble" should be generally adopted to express prices, and that a decree should be issued permitting transactions to be effected on the basis of such units with settlements in Soviet money tokens according to the ruling index. Since in the construction of all Soviet Russian indices the prices of the year 1913 are taken as a base, and as the measure of value at that time was the gold rouble, the "goods rouble" was, as we have already seen, by the same token equal in purchasing power to the pre-war gold rouble.

It was this unit which was used in drawing up the Budget of 1922 referred to above, and which the legislation at the beginning of 1922 sought to bring into general use.

Towards the end of the year the State Planning Commission adopted the same standpoint and its Presidium passed on November 2nd a resolution, which stated that the absence of a stable unit of value was putting the whole State economy into an intolerable position as it precluded the possibility of keeping any reliable accounts, or of drawing up a, to any degree, reliable State Budget. Under the prevailing economic conditions, reliable and correct calculations, the resolution went on to say, could only be effected on the basis of a "goods rouble." The State Planning Commission consequently resolved to undertake the computation of an index number, demanding in particular that the State Budget should be drawn up in the "goods rouble," and that the latter should also be used in fixing the rates of taxation.

Arguments of Those in Favour of the Gold Rouble.

The alternative point of view, which advocated the adoption of the gold rouble as a measure of value, was based on the following considerations.

All commodity prices, it was argued, since the war have undergone a profound change. The relative values of

commodities have completely altered. Neither grain nor sugar, boots nor textile articles have the same purchasing power as in 1913. Gold in particular has changed in value. However, gold remains both the standard of value and the medium of payment in the World economy, and in proportion therefore as closer relations with the outside markets are established, gold must revert to its position as a measure of value in Russian trade. The protagonists of the "goods rouble" were, it was further argued, also basing themselves in the final account on gold since their "goods rouble" was in effect nothing but a rouble equal in purchasing power to the gold rouble of 1913. The right course however, it was contended, was not to base oneself on the pre-war gold rouble, but on a gold rouble equal in purchasing power to the actual value of gold in the post-war World. Although the return to a gold circulation was no part of the immediate policy, this should by no means prevent the gold rouble from being used as an ideal unit of account, payments continuing to be made in Soviet money tokens.

Objections against the Adoption of the Gold Rouble as a Measure of Value.

The chief objection of those in favour of the "goods rouble" was that the prices for gold were, owing to the absence of an organised internal gold market, and to the absence of normal relations between Russia and the World market, subject to sharp fluctuations. To regard the variations in the price of gold as an index of the change of the purchasing power of the rouble at a time when there was a wide divergence between the trends of the prices for gold and the average commodity prices, did not (they contended) seem rational, and could not provide for the establishment of a stable measure of value.

The advocates of the "goods rouble" were inclined to regard the fluctuations of the prices for gold as due to speculation. The index of commodity prices, on the contrary, they maintained, is not subject to such violent fluctuations and stands in closer correspondence to the actual

proportions of the currency inflation. Calculations based on the price-index, i.e. on the "goods" or pre-war gold rouble were therefore more suited to the existing economic conditions.

Objections against the Adoption of the "Goods Rouble" as a Measure of Value.

The above arguments encountered the following objections.

It was pointed out in the first place that the proper use of commodity index numbers was extremely difficult, since they only reflected the movement of prices in the past and could only be applied in practice when considerably out of date. True, the State Planning Commission had first intended to calculate the "commodity index" every day, but this was scarcely practicable, nor was the intention ever realised.

Secondly, it was argued that all index numbers are extremely conventional, as was proved by the multiplicity of indices compiled by various bodies which were in use.

The third argument put forward by the opponents of the "goods rouble" system was that the very idea of fixing prices by means of index numbers was fundamentally fallacious. The "goods rouble," it was maintained, could only be used within very narrow limits, i.e. in so far only as a considerable part of prices continued to be fixed directly in terms of Soviet money tokens.

"In point of fact, let us assume," ran this argument, "that there is but one index number of prices, and that this index is determined daily. So far so good; but let us assume further that all commodity prices without exception are fixed in goods roubles. To-day's index number is known and all settlements have been effected according to it. But what is to determine the index number for to-morrow? What data will the statistical department, charged with the task of compiling the index number, use for its purpose? How can the necessary data be available if no prices are any longer fixed in Soviet money tokens? The system of calculating

in "goods roubles" is therefore possible only as a temporary expedient, but it is by its very nature self-destructive. In other words, if the "index" or "goods rouble" is deduced from the actual existing prices, it cannot at the same time serve as a standard for measuring these prices."

The fourth argument levelled against the extensive use of the "goods rouble," was that since Russia was gradually entering the World market, she should therefore have a monetary system based on an orientation towards a definite relation to world prices, i.e. to gold.*

The Practical Solution of the Question.

Viewed from a theoretical standpoint, it is obviously the advocates of the "gold rouble" (which is not, of course, the pre-war gold rouble) who were in the right, i.e. those who advocated the establishment of a direct link between the Russian monetary system and the stable currencies of the outside world. Nor were they wrong from the practical point of view either, for they advocated a course which was actually adopted, and in the long run proved eminently successful. But the practically more sagacious course nevertheless proved extremely tortuous, and it was only gradually that the point of view, which fundamentally was the only acceptable one, was fully justified. Those in favour of the "goods rouble" rightly pointed out that the price of gold in bullion and in coin and the foreign exchange rates were subject to such fluctuations in Russia in 1922 that it was impossible to base economic calculations on so insecure a basis. Indeed, the purchasing power of the gold ten rouble coin underwent the following fluctuations during that year in Moscow. In January it amounted to 4 roubles 41 kopeks; in April to 6 roubles 11 kopeks; in July to 3 roubles 69

* This controversy, which was carried on in Russia in 1922, and in the early months of 1923, must not be identified with the English controversy concerning the alternative advantages of reverting to a gold standard, or of adopting a system of a managed currency, although there are certain points where the two problems meet. The point at issue in Russia was not what kind of currency should be introduced in place of the depreciating Soviet money tokens, or how the purchasing power of such a currency should be regulated, but what conventional unit of account was to be adopted, whilst retaining the depreciating paper currency for effecting payments.

kopeks; in October to 7 roubles 91 kopeks; and in December to 8 roubles 70 kopeks. Concurrently with the fluctuations in the purchasing power of gold coins, foreign exchange rates lacked all semblance of stability and, although the price of gold came into closer correspondence towards the end of the year with what may be viewed as its normal level in the prevailing conditions of the world market, the connection with outside markets still remained undeveloped, and the purchasing power of gold continued to be governed by causes of a purely local character.

Under these circumstances, therefore, and in spite even of official announcements to the effect that this or that rate was the gold rate and was fixed in relation to foreign currencies, in practice it always proved necessary to keep an eye on the commodity index number of prices. In this context an interview with the Chairman of the Board of the State Bank which was published on May 10th, 1922, in the "Ekonomicheskaya Jasn" is characteristic of the situation.

"The subject was the divergence between the official rates and the rates of the free market, and the methods employed in fixing the official rates.

The Chairman of the State Bank explained that the Bank fixed its rate on the basis of theoretical considerations, namely, by comparison of the purchasing power of the Soviet currency, based on the average rise of prices throughout Russia, with the former purchasing power of the gold rouble. Subsequently, a correction was introduced to allow for the depreciation of gold in the World market.

In other words, the supplies of foreign currency on the market were too scanty to allow of the determination of the gold rouble rate according to the actual dollar and sterling exchange rates. Hence the necessity of taking into account the index number of prices. The fact that an adjustment was introduced into the rate to reflect the depreciation of gold in the World market did not change the essential character of this method of calculation, since gold did not figure in it as an independent measure of value. Indeed, it was essentially the old method of calculating in "goods roubles."

The Triumph of Gold.

It was only after the State Bank began to issue its notes and at the same time the volume of trade expanded and a revival ensued in the foreign market, causing the demand and supply of foreign currency to lose the character of occasional occurrences and become connected with actual transactions with foreign countries, that the rate of the stable measure of value, which had taken the place of the "gold rouble," i.e. the rate of the Tchervonets, ceased to be a mere derivative of the index numbers of prices. The relation of the Tchervonets to the pound and dollar began indeed to acquire real significance; and thanks to this relation the bank notes began actually to represent gold, and prices expressed in Tchervontsi, to assume the character of gold prices. Nevertheless up till 1924 the rates of exchange—on which the regulating organs in Russia exercise a larger measure of influence than in countries more intimately connected with the World economy—were still fixed with an eye directed towards the price-index figures and not even at the beginning of 1924 had the conditions which ruled in 1922 been completely outlived.

In the transition period of 1922, and partly also in 1923, the national economy in its search for a stable measure of value had perforce to base its calculations rather by reference to index numbers of prices, than to gold. This was due to the economic isolation and weakness of Russia—two factors which were very real and could only be overcome slowly. The theoretically more correct, and practically more sagacious, point of view of those who advocated the adoption of the gold rouble was bound to win in the end; but, owing to the conditions prevailing at the time, this victory could only take place after a period of helpless wanderings in search of a stable measure of value. Only with the extension of foreign trade, and with the introduction of fundamental changes in the monetary circulation, did the end of these painful and largely vain efforts at last loom in sight.

THE TCHERVONETZ (1923)

New System of Pricing.

THE transition to gold as a basis in price fixing, predetermined the further development of the monetary system, the most drastic step in the new direction being the creation of a new monetary unit. The Tchervonetz was an "invention," in the same sense as any reform may be said to be an "invention." It was indeed one of those inventions which are inevitable: for the whole trend of compelling economic forces (i.e. production for the market, selling for money and the vital need for an exact calculation of working costs and the avoiding of losses on sales) called inexorably for its adoption. We have already seen that when the State allowed private enterprise to develop side by side with its own undertakings, and adopted as a fundamental principle of its policy the financial independence of the country's economic organisations, thus making the working of industry at a profit the *sine qua non* of the country's prosperity, it became a matter of absolute necessity to have a stable measure of value, since without it no progress was possible along the new lines of the New Economic Policy. Yet it was utterly impossible that such a measure of value as this or that official rate of exchange, or this or that index number of average prices, should have proved adequate for any length of time. The trade of the country could not be carried on on the basis of abstract arithmetical standards, by calculations based on artificially stable units, while payments were made in depreciating currency. Indeed, had the Government failed to supply a stable currency in 1922, the country would undoubtedly have found its own way of escaping from the difficulty. In its quest for a stable standard it would either have turned to some

foreign currency, or more probably under the existing conditions in Russia it would have made use of the old gold coinage which, driven from circulation during the war and revolution, nevertheless still remained in the country and could have served, if not for the whole, at least for some sections of the country's trade.

Danger to the Existing System of Currency.

That this was no mere hypothesis was amply proved by the experiences of 1922. In the archives of the People's Commissariat of Finance there are sufficient data to show that the old gold coinage actually came into use, notably in the border provinces, especially in Transcaucasia, in the seaports, on the right banks of the Dnieper and in the Ukraine. It also resumed its function as a monetary unit in the Far East, all of which threatened the position of the official currency. Nor was this danger apparent in the border provinces alone: even in the centre of Russia gold coinage began steadily to regain its former prestige. It was not only private individuals and firms who took refuge in gold. Gold coinage began to make an increasing appearance in the State Pay-offices, and State economic bodies began to insist on being paid for goods in gold coin. One of the largest State industrial undertakings in Moscow at this time paid its workers' wages in gold coin.

The Introduction of a Stable Currency Unavoidable.

In fine, the need for a stable currency became so widespread and insistent that its satisfaction could no longer be delayed.

Assuming even that there was no actual danger of the old gold coinage and foreign currencies finding their way into circulation in any appreciable quantities, and assuming further that such a danger, if it existed, could have been countered by administrative repressions—which at the time seemed highly dubious—it was clear beyond all manner of doubt that the introduction of a stable currency could not be dispensed with. Without it no restoration of the shattered national economy was

possible; and the inevitable, and in themselves not illegitimate, attempts on the part of economic undertakings to provide for themselves the prerequisite conditions for profitable work must inevitably have resulted—and to some extent indeed did actually result—in objectionable manifestations. The Government was thus forced to take drastic steps to reorganise the monetary system, and to provide the country with a stable currency.

Its action took the form of granting the State Bank authority to issue notes, and it was in this manner that the Tchervonets came into existence.

Bank Note Issue Act.

The question of authorising the State Bank, which was established in 1921, to issue notes was raised very soon after it started its operations. In May, 1922, following upon several conferences on the subject, at which the opponents of a bank note circulation were in a small minority—which by no means implies that their numbers were few at the time in the country—the question received a solution not only in principle but in all its essential aspects, and was closely examined by the Council of People's Commissaries. In the autumn of the same year after some minor amendments had been introduced into the plan, it was put into force. (Decree of the Soviet of the People's Commissaries, dated October 21st, 1922.) The State Bank had been making its preparations for the issue of notes since the summer of 1922; and at the end of November the issue actually commenced.

The gist of the Decree authorising the issue of notes was as follows:

The State Bank became the Bank of issue, and although it was not stated definitely, it was clear by implication that it was to become the sole note-issuing Bank of the Soviet Republic. It was to issue bank notes for its commercial operations only; but there was one exception to this rule, which the Decree allowed but did not prescribe. The bank notes were to be issued in units of a new designation called Tchervontsi. No

definite relation between this new unit and the unit of the prevailing currency—the rouble—was fixed. On the other hand, a definite relation was fixed between it and the old unit of the pre-war monetary circulation: a bank note of one Tchervonetz was made equal to 1 solotnik 78·24 dolyas pure gold, i.e. to the gold content of the 10 rouble coin of the pre-war mintage. The law specified that "one Tchervonetz = 1 sol. 78·24 dolyas pure gold = 10 roubles of the pre-war Russian coinage," thus ostensibly implying that the State Bank would eventually be liable to exchange bank notes into gold on this basis. In the meanwhile the State Bank, in its policy of establishing a definite rate of exchange between the Tchervonetz and foreign currencies, would clearly be actuated by the consideration that the Tchervonetz was equal to 10 roubles gold, and would in consequence endeavour to establish a correspondence of parity between the Tchervonetz, the Dollar, the Pound sterling, etc.

Cover for the Tchervonetz.

The law provided that the bank notes put into circulation should be covered to the extent of one-quarter at least by precious metals and stable foreign currency, and as to the remaining three-quarters by short term bills of exchange, easily realisable goods, etc. By "bank notes put into circulation" the law implied (for although this was not stated in the Act, it was subsequently explained in administrative Orders) the amount of bank notes transferred from the Issuing Department to the Chief Pay office of the Bank, for distribution among the different branches and agencies.* The amount transferred to the Chief Pay-office is usually somewhat in excess of the amount actually put into circulation, so as to leave a portion at the Bank which the latter retains in its till for necessary cash purposes.

The bank notes secured, at least to the extent of one-quarter, by precious metals and foreign currencies, were not for the present to be convertible into gold. "The

* This corresponds roughly to the transfer of bank notes from the Issue Department of the Bank of England to its Banking Department.

date when the exchange of bank notes into gold will begin," states the Decree of the Soviet of People's Commissaries, "will be announced in a separate Government enactment."

Additional Security.

In order to strengthen the position of the bank notes, the law established a definite relation between them and the former gold currency; it specified the amount of their metal cover; and promised to make them convertible with gold in the future. Furthermore, it provided additional security, in that it laid down that bank notes were to be accepted at their face value in payment of taxes, Customs duties, etc., and in all cases when it is legally demanded that payment should be effected in gold.

The practical effect of this in the late months of 1922 and the beginning of 1923 was that bank notes were paid in discharge of Customs duties, which afforded an initial scope for their use as a medium of payment.

Treasury Advances.

The one exception to the stipulation that the bank notes should be issued for trade purposes only, is worth noting. The State Bank was allowed, with the special sanction of the Government, to grant advances in bank notes to the People's Commissariat of Finance, conditionally upon such advances being secured by precious metals to the extent of not less than 50 per cent. Thus, while making provision for a possible use of Bank issues for budgetary purposes, and whilst keeping the door ajar, the law provided a restriction against abuse in the form of a gold barrier.

So far, no use has been made by the Treasury of this right to borrow from the Bank.

Issue of the Tchervonets.

The penetration of the bank notes into circulation proceeded at first very gradually. The issue commenced at the end of November, 1922, and on January 1st, 1923, only 356,000 Tchervonets were in circulation. The

following table gives details of the farther progress of the Tchervonetz issues :

	Transferred to the Chief Pay- office of the State Bank.	Passed into circulation.	Ratio in Percent- age
	1.	2.	3 : 1.
At January 1st, 1923	1,118,000	356,245	31·86
„ April 1st, „	4,500,000	2,566,689	57·04
„ July 1st, „	9,600,000	7,000,144	72·92
„ October 1st, „	23,500,000	21,403,488	91·08
„ January 1st, 1924	28,000,000	24,916,851	88·99
„ March 1st „	32,800,000	30,027,099	91·55

The first column of the table shows the total of bank notes transferred by the Issuing Department to the Chief Pay-office of the State Bank, of which amount a certain proportion remains in the tills of the Bank, while the rest actually passes into circulation. It cannot be claimed that the figures in the second column showing the actual figure of notes in circulation, especially for the first months, are absolutely correct : but they cannot be far out.

Penetration of the Tchervonetz into Circulation.

In the first place, we should examine the ratio between the figures in the two columns. Such an examination will reveal how considerable was the portion of the Tchervonetz which remained in circulation, without returning immediately to the Pay-offices of the Bank. The proportion of the notes in circulation to the total issued by the Bank amounted on January 1st to 31·9 per cent. ; thenceforward it rose steadily to 90 per cent., until it became and remained steady at about 90 per cent., which seems to be the normal ratio.

It may be inquired what the reason was for the low ratios which prevailed during the first months of 1923. The answer is that the Tchervonetz had not yet come into use as a general medium of payment. The State Bank paid out the bank notes by way of loans, and the industrial and trading undertakings who received them immediately returned them to the Bank to be exchanged

into Soviet money tokens. One of the reasons for this practice was the scarcity of bank notes of low denominations. In this connection it should be noted that the Commissariat of Finance purposely restricted the number of bank notes of the denomination of one Tchervonetz in order to retard their penetration into circulation, so as not to discredit too rapidly the Soviet money token. Yet another cause was that the bank note was an unfamiliar medium, in consequence of which industrial and trading concerns were compelled to effect most of their payments in Soviet money tokens. This latter obstruction was gradually overcome; but it is noteworthy that as recently as July, 1923, it was still a debatable point in Leningrad as to whether it was admissible for workers' wages to be paid in Tchervontsi. Similarly, in August, 1923, when plans were being made to finance the movement of the Turkestan cotton crop the question as to the expediency of providing the Turkestan collecting bases with a sufficient quantity of Soviet money tokens was heatedly debated. It was argued by some that the Turkestan peasants were unfamiliar with the Tchervonetz currency, and would not agree to part with their produce if payment were made in this medium. Two months later the question was once again pushed to the fore, when it proved that the wrong course had been taken, and that the Turkestan peasants refused point blank to be paid in Soviet money tokens and insisted on being paid in Tchervontsi!

The bank notes began by circulating in the large centres. They then gradually reached the villages. By the autumn of 1923 the process of their absorption into circulation may be said to have been practically complete.

The Tchervonetz as a Medium of Payment.

At the same time it should be observed that in proportion to the absorption of the bank notes into circulation their position in the national economy underwent a change. At first, the public looked upon them as no more than a security suitable for the investment of surplus cash: a security which could be realised at

any moment when "money" was required. Only gradually did the bank note become invested in the public eye with the status of currency. The Financial Department itself took measures to insure the quickening of this process. On January 25th, 1923, it issued a circular prescribing that the local offices of the People's Commissariat of Finance should accept payments in Tchervontsi at the current rate of exchange (at that time taxes were still fixed in terms of Soviet money tokens), thus providing for the bank notes a wider field of circulation. Within a couple of months the important State and Co-operative trading concerns engaged in retail trade announced that they would accept payments in Tchervontsi, and soon the practice became universal.

However, in February, 1923, it was still considered necessary to act cautiously in the matter, and the Commissariat of Finance, while sanctioning payments in Tchervontsi, warned its officials not to force their acceptance upon the public, but to secure in every case the payee's consent to such manner of payment.

This restriction was not removed till September, 1923, by which time the public had become quite used to the new notes, and accepted them as money in the fullest sense of the word.

When the State began to pay in Tchervontsi without consulting the wishes of the payee, it began to recognise them as legal tender money in the same sense as Soviet money tokens. The circumstance alone that the instructions to the State Bank contained a provision to exchange bank notes against Soviet money tokens without any restrictions as to the amount, confirmed the fact that the Soviet money tokens had retained their position as a basic currency, and that of a definitive medium of payment.*

Extent of Cover.

As stated above, the law required the bank notes to be covered, to a definite extent, by precious metals and

* Money, according to Prof. Knapp's definition, is definitive if, when payment is made in it, the business is completely concluded.

stable foreign currencies. The State Bank, however, went beyond the legal minimum, and endeavoured to maintain the bullion, coin and foreign currency cover at 50 per cent., instead of the prescribed 25 per cent. The extent of the different forms of cover (in percentages) at different periods is shown in the following table:

	Metal cover.	Foreign bank notes.	Total of first class cover.	Bills.	Other foreign of cover.*	Total Per cent.
January 1st, 1923	33.7	39.0	72.7	27.3	—	100
April 1st, ..	33.4	1.3	34.7	6.0	39.1	"
July 1st ..	46.6	2.7	49.3	4.1	46.6	"
October 1st, ..	36.0	14.4	50.4	2.2	47.4	"
January 1st, 1924	31.6	19.5	51.1	1.6	47.3	"
March 1st, ..	28.2	22.1	50.3	1.3	48.4	"

During the first months the amount of first class cover actually exceeded 50 per cent. Afterwards it became necessary to provide more varied forms of cover. It should be remembered that the ratios of the cover shown in the above table are in respect of the total number of bank notes transferred to the Chief Pay-office of the Bank, i.e. in respect of a larger number of Tchervontsi than were actually in circulation.

Purchasing Power of the Tchervontsi.

The object of issuing the bank notes was to provide the country with a stable currency. The degree of the stability of a currency can be gauged only by its purchasing power against commodities, on the one hand, and its purchasing power in terms of foreign currencies on the other. Let us examine, in the first instance, the purchasing power of the Tchervontsi in the home market, using for the purpose two index numbers, namely, the Index Number of Wholesale Prices of the State Planning Commission and the All-Russian Index Number of Retail Prices compiled by the Institute for the Study of Market Conditions.

* Bills of Exchange, commercial bills, merchandise.

PURCHASING POWER OF THE TCHERVONETZ.

	According to the Index Number of Wholesale Prices of the State Plan- ning Commission.	According to the Index Number of Retail Prices of the Institute for the Study of "Market Conditions.
January 1st, 1923	11 rbls. 8 kps.	8 rbls. 94 kps.
April 1st, "	9 " 50 "	7 " 82 "
July 1st, "	7 " 76 "	6 " 44 "
October 1st, "	7 " 47 "	6 " 15 "
January 1st, 1924	7 " 93 "	5 " 57 "
March 1st, "	7 " 64 "	5 " 42 "

In the first place we observe a considerable difference between the figures in the first and second columns of the table. The comparatively high level of the former is due to the fact that retail prices had increased, in comparison with pre-war prices, to a greater extent than wholesale prices. The reason for this is to be sought mainly in the general organisation—or, rather, dis-organisation—of the country's trade, and not in monetary causes. Only the increase of the divergence at January 1st, 1923, by 24 per cent. and at February 1st, 1924, by 41 per cent. is explained by the latter circumstance—a matter which we shall have occasion to deal with later.

Changes in the Purchasing Power of the Tchervonetz.

In the beginning of 1923 the purchasing power of the Tchervonetz was very great. In January it actually exceeded, in wholesale trade, the pre-war purchasing power of gold. Afterwards it dropped to 75 per cent. of the value of the pre-war money: but even this was higher than the purchasing power of gold in countries enjoying a stable currency.

But the position was much worse as regards retail prices. The cause of this decline in the purchasing power of the Tchervonetz must be ascribed to the fact that during the summer months the industrial and trading undertakings, supported by the credits extended to them by the State Bank, and profiting by their monopoly on the market, systematically raised the prices of

commodities until they reached a level beyond the reach of consumers, with the result that their goods became unsaleable. Under the existing conditions in Russia this state of affairs could be maintained for a considerable length of time because the fresh credits granted to them by the State Bank enabled the industrial undertakings to keep large stocks of goods without worrying over much about placing them on the market.

While this policy may have been promoted by the desire to produce without incurring losses, it utterly failed to take into account the realities of the market position and the purchasing capacity of the population, and was consequently bound sooner or later to lead to a crisis. The advent of this crisis was not avoided: but a more stringent credit policy, which was eventually adopted by the State Bank, prevented the decline in the purchasing power of the Tchervonetz from assuming dangerous proportions.

In short, the first year of the bank note issue was characterised by the high purchasing power of the Tchervonetz during the first five or six months, its decline during the summer, and comparative stability at the level reached in July during the last quarter of 1923 and the first period of 1924. The position was subsequently influenced by the Monetary Reform of 1924; and we shall return to the subject in due course.

The decline in the purchasing power of the Tchervonetz had one effect deserving of special notice: it promoted the penetration of the bank notes into circulation.

During the first few months of their appearance, all the local branch managers of the State Bank insisted that the high denominations of the bank notes, which placed them beyond the reach of the masses, and especially of the peasantry, prevented their widespread acceptance by the public. At that time banking circles strongly advocated the issue of half-Tchervonetz notes, but the Commissariat of Finance could not accede to this proposal without prejudicing the prospects of future Treasury issues.

A way out of the difficulty was, however, provided by the course of subsequent events. The change in the

purchasing power of the Tchervonetz was tantamount to the provision of bank notes of lower denominations, and proved sufficient to make the Tchervonetz a general medium of payment in the country. The inevitable result was a yet further displacement of the Soviet money tokens.

The Foreign Exchange Rate of the Tchervonetz.

The movements of the rate of the Tchervonetz in terms of foreign currency in the Moscow market took a different course to that followed by its internal purchasing power. This is illustrated by the following table showing the dollar and sterling exchange rates as quoted on the free market, and those fixed by the Stock Section of the Moscow Goods Exchange.

AVERAGE MONTHLY DOLLAR AND STERLING EXCHANGE RATE OF THE TCHERVONETZ.

Month.	Free Market.		Official Exchange	
	Dollars.	Sterling.	Dollars.	Sterling.
January, 1923	4.36	0.97	—	—
April ..	4.24	0.99	4.66	1.07
July ..	4.74	1.03	4.84	1.05
October ..	4.93	1.08	4.98	1.09
January, 1924	4.54	1.07	4.59	1.07
February ..	4.62	1.07	4.64	1.08

On the basis of the pre-war gold parity the Tchervonetz should have been worth 5.15 dollars. The gold value of the pound sterling on the London money market fluctuated during 1923 between 9.00 and 8.20 roubles: and the sterling exchange rate of the Tchervonetz, if the latter remained stable and was quoted at its gold parity rate, should therefore have been equal to 1.11 to 1.22 pound sterling. In the beginning of 1923 the Tchervonetz stood high, reaching in March practically the parity exchange rate against sterling, but in May it declined considerably, this decline being partly attributable to political complications with Great Britain. Subsequently it rose again, reaching the high-water mark in October, and then declined again somewhat. By the end of the year it stood at, roughly, 9.00 gold roubles to the pound.

It will be seen that these movements were not coincident with the variations in the purchasing power of the Tchervonetz in the home market, which was natural enough. Everywhere, even in countries where private enterprise is unrestricted, the process of the adjustment between the foreign exchange rates and the internal purchasing power of the currency and vice versa is only very gradual. Under the prevailing conditions in Russia, with a monopoly of foreign trade and a controlled money market, these movements may take place quite independently of one another. On the whole, the stability of the foreign exchange rates of the Tchervonetz in 1923 was greater than the stability of its internal purchasing power.

Currency Legislation.

It was to this end indeed that the Government directed its foreign exchange policy. Its foreign exchange policy was in fact dependent on, and supplementary to, its general policy of foreign trade.

It will be remembered that at the opening of trade relations between Soviet Russia and foreign countries, Russia had practically nothing on the credit side of her international trade balance. The famine of 1921-1922 and the consequent necessity of importing foodstuffs from abroad made matters worse. The imported foodstuffs and machinery were paid for, not by exports of merchandise, but in gold. The position underwent a change for the better in 1923 and 1924; but in the beginning of 1925 Russia could not rely solely upon the results of her foreign trade policy. This was all the more impossible, because her demand for foreign exchange was not limited to her requirements of making payments abroad. She needed foreign money for the building-up of her depleted gold reserves, and the State Bank made extensive purchases of foreign money to this end.

Whilst issuing a new currency and intending to stabilise it, the Soviet Government decided to adopt special measures to insure the success of its policy. Hence the currency legislation of 1922 and 1923.

During the years of War Communism, the Government had passed a series of legislative enactments whose general purpose was to withdraw from private possession, all gold whether in the form of bullion, coin, or ingots and manufactured articles, and all foreign currency, and to place it at the disposal of the State. The Decree of October 17th, 1921, dealing with requisitions and confiscations, while relaxing somewhat the severity of the various enactments of the period of War Communism, retained all the old restrictions as regards bullion and foreign exchange. As D. A. Loevsky wittily remarked ("Currency Policy and Currency Legislation," page II, 1923), "By this Decree bullion and foreign exchange were made to rank with fire-arms and explosives."

The legislation of the following year contained certain concessions; but they were rather indefinite and contradictory.

Indeed, according to the letter of the law, all currency transactions were still prohibited: but, as the economic conditions of the country had undergone a profound change, the old currency legislation was rapidly becoming inoperative, and in actual practice most, if not all, of the restrictions were not enforced. Yet no one knew to what extent exactly this or that law might still be in operation: and new legislation was all the more imperative as the conferment on the State Bank of the right to issue notes made monetary policy a burning question of the day.

The fundamental lines of the Government's currency policy were laid down by the following enactments: (1) the Decree of the Council of People's Commissaries, concerning Stock Exchange Transactions of October 20th, 1922, (2) the joint Decree of the All-Russian Central Executive Committee and of the Council of People's Commissaries of February 15th, 1923, concerning Currency Operations, and (3) the Decree of the same bodies of April 15th, 1923, regulating the Export and Transfer Abroad of Foreign Exchange.

The principles established by the above legislation were the following. Private persons and trading concerns became free to enter into currency transactions with one

another. The only restriction placed upon such transactions was that they had to be effected either on the Bourse or with credit institutions authorised to deal in foreign exchange. In practice, however, this restriction was not enforced, the legislators having adopted the view that private dealings in foreign exchange would be on a very small scale, and that their control by the State would be virtually impracticable. It was the latter consideration which carried the greater weight. State and Co-operative institutions and concerns could acquire foreign exchange only by special permission. Such permission (which was granted in two different forms) had to be obtained from a special Inter-Departmental Currency Conference attached to the People's Commissariat of Finance. Undertakings engaged in foreign trade obtained permission to become active members of the Bourse, or of the Stock Section of the Goods Exchange; and the membership carried with it the right of engaging in exchange operations without obtaining special permits for individual transactions. The other form of permit granted by the Currency Conference authorised the purchase of foreign exchange on a single occasion.

No payment within the Republic could any longer be effected in foreign currency, which could be used only for settlements with institutions and concerns abroad. Furthermore, the State Bank received the preferential right to acquire foreign currency received in payment of exports, i.e. the exporter receiving foreign currency for goods exported abroad was compelled first to offer it to the State Bank at the rate fixed by the Stock Section of the Goods Exchange before disposing of it otherwise.

Finally, the Decree concerning the Export and Transfer Abroad of Foreign Currency, while limiting the unrestricted exports which any one person might effect to a definite sum, authorised the transfers or export of larger amounts, provided they were destined for the payment of imported goods.

Aims and Results.

The object of this legislation is quite clear. It was intended to prevent State and Co-operative undertakings

from acquiring foreign currency for purposes of hoarding, and to provide only for the satisfaction of requirements arising in connection with foreign imports, such imports to be authorised and brought into conformity with the general import plan. Its purpose was also to enable the credit institutions and particularly the State Bank to accumulate the largest possible reserves of foreign currency.

The task of controlling the foreign exchange market is fraught with considerable difficulties even under the present conditions obtaining in Russia, where the Government has to deal with a comparatively small number of large industrial and trading concerns, all of which are State controlled and managed by officials nominated by the Government. Nor has the entire corpus of currency legislation of the year 1923 been duly carried out in practice. A great deal of it is indeed impossible of fulfilment. It has, nevertheless, on the whole, justified the expectations reposed in it. It was instrumental in contracting the demand for foreign currency and in increasing its supply; and it made easier the support of the exchange rate of the Tchervonetz.

The Nature of the Tchervonetz.

We have traced the origin of the Tchervonetz and examined the circumstances of its introduction; we have followed the history of the bank note issue, the movements in the purchasing power of the Tchervonetz and its rate of exchange against foreign currency.

We must now examine one very important question to which current Russian financial literature has devoted considerable attention.

What is the nature of the Tchervonetz? Or, in other words, since the Tchervonetz is money, what determines its purchasing power and its rate of exchange?

For a long time the following view prevailed upon this question. The bank notes were money in exactly the same sense as were the Soviet money tokens. Their rate of exchange was regulated by artificial measures adopted by the Government. The adoption of such measures was made possible through the Government controlling

the Treasury issues, by means of which it arbitrarily fixed the exchange rate. The Tchervonetz was in fact supported by the Soviet notes. Remove this support, and the whole artificial structure of the Tchervonetz would inevitably collapse. The clearest and the most uncompromising summary of this point of view known to the author has been formulated in the following manner.

The Relation Between the Soviet Money Tokens and the Tchervonetz.

It was not at all necessary, so ran the argument, to give the State Bank permission to issue bank notes. The Government could issue two distinct kinds of Treasury notes: one, which could be rated as second-class currency, and could be allowed to depreciate in value (say, the Soviet money tokens) and another—a first-class currency—which would be maintained at a stable level (say, the Tchervonetz); an exchange rate for the latter could be fixed officially in accordance with the variation in prices as expressed in terms of Soviet money tokens. It is at this rate that the Government could accept the better currency in payment of sums due to it, and could have even insisted upon all concerns and persons doing the same. It was further argued that there was no essential difference between such a Treasury note of the first class and the bank note of the State Bank. The latter possesses no specific qualities; the Government merely fixes its rate of exchange, exercising its influence in two directions, (a) by using Soviet money tokens and (b) by bringing pressure to bear upon the various institutions under its control.

This point of view correctly appraises certain aspects of the phenomena, which have certainly evolved in the process of the introduction and consolidation of the Tchervonetz: but it overlooked the essentials of the case.

The Tchervonetz and Gold.

In November, 1922, the State Bank issued for circulation a bank note which, at the time, could not be said to

possess any definite value. On the face of it was inscribed that it corresponded to the value of the quantity of gold contained in the old ten rouble coin. But, in the first instance, the market in gold was at the time so restricted that the price of gold itself played no vital part in the country's economic life; and, secondly, it was not enough to define officially the gold value of the Tchervonetz. It had to be proved that such value did in fact exist. The State Bank proceeded to solve this problem on the following lines.

Starting from the recognition of the fact that in the Russian money market the pound sterling—a comparatively stable, if not quite stable, currency, and moreover one in which most of Russia's foreign payments were made—enjoyed a definite value, the Bank set itself the task of creating such a condition of things as would permit of the Tchervonetz purchasing a pound sterling at any time. In order to achieve this object it was necessary to accumulate a sufficient quantity of foreign exchange in the State Bank and to regulate its demand and supply on the market. Before commencing to issue bank notes the State Bank had begun to accumulate foreign currency and continued to do so after the issue started. The foreign trade policy of the Government and the currency legislation assisted by making the relation between demand and supply such as to make the task of the State Bank capable of fulfilment. The average rate of exchange during 1923 was Tchervonets 1·01 to the pound sterling, which provided the solution of the problem. But it is only natural, under the exceptional economic conditions prevailing in Russia, that variations from the above average rate should have been, at different times, very great.

This orientation towards the pound sterling, however, necessitated more than the mere regulation of the foreign exchange market. The Soviet money token still remained the basic Russian currency, and the rate of exchange as between the Tchervonetz and the pound sterling continued, until the autumn of 1923, to be conditioned by the valuation both of the Tchervonetz and the pound in the terms of the Soviet money token. The rate of the

Tchervonetz exchange could therefore be regulated not only by offering foreign exchange, but also by withdrawing Tchervontsi from the market, using Soviet money tokens for the purpose. The State Bank used both these methods, but during the first six months it mostly made use of the Soviet money tokens placed at its disposal for the purpose by the Treasury.

Bank Note Policy.

What took place was, roughly, this.

Suppose, for instance, that the State Bank desired to establish on January 11th, 1923, the rate of 181 roubles to the Tchervonetz, on the ground that the value of the pound sterling in the open market in terms of Soviet money tokens was 187 roubles. The Bank could bring the value of the pound sterling to Tchervonetz 1·033 by offering sterling exchange at that price; but the same result could be achieved by buying the Tchervontsi in the open market at the rate of 181 roubles. There was a regular demand for Tchervontsi in the country, because the industrial and trading concerns could liquidate their debts to the State Bank only in this medium. It might happen, however, that the ratio between the demand and supply of bank notes would be such that, without the Bank's intervention, the Tchervonetz would command in the open market less than 181 roubles. As a matter of fact, on January 11th, 1923, the value of the Tchervonetz in the open market was only 175 roubles, and as the State Bank went on exchanging (as it was compelled to) the bank notes into Soviet money tokens, the public took full advantage of such a favourable rate of exchange, and freely presented the bank notes to be exchanged into Soviet money tokens. Had the Bank continued to exchange them without any hindrance, there would have been no difference between the official and unofficial rates of exchange. The fact that such a difference did in fact exist shows that at certain times the Bank could not cope with that part of its task. On the whole, however, it may be said to have carried out its task successfully, as may be seen from the following table showing the deviations of the free market rate of exchange in

Moscow from the official rate during the first eight months of 1923.

Month.	Deviation of the Unofficial Rate of Exchange from the Official. (In Percentages.)
January 1st, 1923.	— 4.6
February 1st "	— 1.4
March 1st "	0.0
April 1st "	+ 1.3
May 1st "	+ 1.1
June 1st "	— 0.5
July 1st "	— 1.1
August 1st "	0.0

Thus in its endeavours to establish "intervaluta parity" the State Bank made use, not only of foreign exchange, but also of Soviet money tokens; and in that sense it may justly be said that the Tchervonetz was supported and secured by the Soviet money tokens. But, if the Soviet money tokens did play the part of scaffolding used in the course of building up the structure of the Tchervonetz currency, it was utterly wrong to see in this scaffolding the structure itself. With the gradual penetration of the Tchervonetz into circulation and the assumption by it of the position of the basic currency of the country, its rate became essentially dependent on the demand for it as a medium of payment.

During the last months of 1923, the Soviet money tokens ceased altogether to play a part in supporting the rate of the Tchervonetz. The unofficial rate for the Tchervonetz stood higher than the official rate from October, 1923, onwards in Moscow, and from the last two months of the year almost throughout the Union as a whole. Thenceforth, the purchasing power of the Tchervonetz depended only upon the general position of the home market and upon the rate of its accumulation, while its dollar and sterling exchange value depended on the position of the foreign exchange market.

Deflation.

The Tchervonetz was actually introduced into circulation with the support of the Soviet money tokens. But

from the time its rate was "made" and its nature determined, the country adopted it for all purposes of pricing and calculation, and the Tchervonetz became the basic medium of payment in the country, its purchasing power becoming dependent on the same factors which determine the value of any other currency, viz. on the internal demand for money and the country's international balance of payments. By the end of 1923 it could no longer be maintained that the further absorption of bank notes into circulation could be effected only by means of a further displacement of Soviet money tokens; for the latter were already displaced, and merely played the part of a subsidiary currency. The Soviet money token had thus fulfilled its object in regard to the Tchervonetz and the time had come when the scaffolding could be removed.

We shall see in the next Chapter that such a course became, not only possible, but necessary in virtue of the condition of the monetary circulation of the country.

CHAPTER VI

A MONETARY SYSTEM CONSISTING OF TWO "UNRATED" PAPER CURRENCIES

Issue of Money Tokens in 1923.

THE issuing of Soviet money tokens went on simultaneously with the issuing of bank notes. The system of currency became more complex and a detailed analysis of the position in 1923 is, therefore, a matter of no small interest. Before considering this system and its implications as a whole, we shall examine separately its component parts. We have already given data concerning bank note issues in the preceding Chapter, and will therefore now begin with an examination of the Soviet money token issue.

ISSUE OF SOVIET MONEY TOKENS OF THE 1923 PATTERN.

(In Millions of Roubles.)

				Amount of monthly issue.
January, 1923	..	..	..	634·2
February	..	..	..	607·4
March	..	..	..	1,246·2
April	..	..	..	1,594·1
May ..	..	..	..	974·6
June	..	..	..	1,980·9
July ..	..	..	..	3,424·2
August	..	..	..	4,227·9
September	..	..	..	6,017·4
October	..	..	..	39,198·5
November	..	..	..	46,720·3
December	..	..	..	109,972·9
January, 1924	..	..	..	222,537·3
February	..	..	..	370,716·1

On January 1st, 1924, there were altogether 218,407·9 million roubles of money tokens of the 1923 pattern in circulation; on February 1st the figure rose to 440,945·2

million, and at March 1st it stood at 811,662 million roubles.

The monthly variations in the amounts issued were very great, and especially striking was the sudden rise during the autumn months of 1923. This indeed was the beginning of the end of the Soviet money token. Its sphere of circulation had already been considerably narrowed through the penetration into circulation of the Tchervonetz, and its depreciation now continued at a rapid pace.

It was not only for the purpose of covering the budgetary deficits that these prodigious issues of Soviet money tokens were necessary, but also because beginning from July, 1923, an acute shortage of small change set in; and finally, yet another circumstance arose which contributed to force the pace of the note press.

As we have already had occasion to point out in the preceding Chapter, the substantial issues of bank notes during the summer months had led to a fall in the purchasing power of the Tchervonetz, in the face of which a continued issue of bank notes on the same scale to finance the moving of the autumn crops would, to say the least, have proved injudicious; but as an additional supply of money for the purpose could clearly not be dispensed with, there was no alternative but to resort to further issues of Soviet money tokens. It was realised that this course was fraught with great danger to the Soviet money token, but the Commissariat of Finance saw no other way of meeting the situation.

It was only natural, of course, that these ever-increasing issues of Soviet tokens should have precipitated the rate of their depreciation. Indeed, the rise in prices which, during the first three months of 1923, amounted to an average of 23 per cent. per month, increased during the next quarter to 43 per cent. per month, reaching 78 per cent. during July-August-September, and 104 per cent. during the last quarter of 1923. In January, 1924, the prices of commodities, expressed in Soviet money tokens, more than trebled, and in February they increased by more than three and a half times. In order to achieve the desired result, i.e. to obtain

a score or two million roubles per month, the Treasury had to issue immense quantities of paper money. At the same time the scope for the Treasury's issues was rapidly narrowing. If one estimates the real value of the total of Soviet money tokens in circulation by means of the same index of prices which was used in the preceding Chapters, it will be found that it amounted on April 1st, 1923, to 114 million pre-war roubles. From that time onward it fell steadily, reaching, by July 1st, 76·8 million roubles, 34·2 million roubles by October 1st, 40 million by January 1st, 1924; while in March, 1924, the real value of all the Soviet money tokens in circulation had fallen to the low figure of 13·2 million roubles.

From the above figures and comparisons it will be seen that the system of Soviet money token issues which had still served its purpose during the first years of financial reconstruction, began eventually to break down in spite of the fact that the financial and general economic conditions in the country had in the meantime undergone a substantial improvement as compared with the preceding years. But the monetary system had also in the meanwhile become transformed.

The Currency Position and Gresham's Law.

In 1923 the Treasury's money tokens were no longer the only form of currency in the country, since, beginning from the end of 1922 with the introduction of the Tchervonets, there were two independent currencies in circulation. The one as represented by bank notes was stable, in so far as stability was generally possible under the prevailing conditions in the national economy, the restoration of which had only begun some two and a half years before; the other currency, consisting of Treasury issues of money tokens, continued on its course of rapid depreciation.

Two currencies cannot circulate side by side for any length of time without coming into competition. Gresham's law, that bad money tends to drive out good money when the two exist side by side, does not however apply to the case in point; it applies only to two systems of coinage, i.e. to forms of money which possess besides

their nominal value an intrinsic worth based on the market price of the metal content of the coins, which can be melted down and turned into bullion whenever this is commercially profitable. On the other hand, the competition between two paper currencies circulating side by side is subject to its own laws; and these can be deduced from the history of the Soviet monetary circulation in 1923.

The Tchervontsi were better money than the Soviet money tokens, but they were both only paper money; that is to say, having no intrinsic value, they could only give—to use a now well-known term which was first introduced by G. F. Knapp—"circulatory satisfaction." One kind of paper money cannot drive out another in the same sense as silver money can drive out gold money, or vice versa. When the process does take place, it assumes a different form: generally speaking, it is not the worse currency that expels the better, but the better paper money that drives out the worse.

The Tchervontsi were better money than the Soviet money tokens, and it was therefore natural, of course, that every holder of the latter should endeavour to exchange them into Tchervontsi. The only temporary check upon this tendency was the unfamiliarity of the public with the new bank notes. However quickly they were absorbed into circulation, some months necessarily elapsed before the dwellers in the villages, especially of the distant provinces, had become familiar with them and persuaded of their superiority over the steadily depreciating, but more customary form of money. It was only normal of course that this obstacle, which at first prevented the spread of a general desire to exchange the depreciating currency into a stable one, should gradually lose its potency; but during the first half year of the Bank's note-issuing activities, its influence remained so great that the State Bank and the People's Commissariat of Finance had to take special steps to acquaint the public with the new currency, and this took some considerable time to accomplish.

But apart from this temporary check, there was another and a more definite limit to the wider adoption of the

Tchervontsi as a medium of payment. The lowest denomination in which bank notes could be issued was fixed by law at one Tchervontsi, corresponding to ten gold roubles. The country however required smaller notes and the Soviet tokens alone continued to fulfil the functions of small change; that is, if we exclude the so-called Transport Certificates in denomination of five roubles, gold, which were issued to a small amount at the end of 1923 and in the beginning of 1924. A limited sphere of circulation was thus still left to the Soviet money tokens, in which they did not compete with the better bank note currency. Hence it is clear that there could be but one result of the competition between the Tchervontsi and the Soviet money tokens; that is to say, the bank notes were bound to expel the Soviet money tokens from large scale and medium scale transactions, leaving them to perform the sole function of small change.

The question as to whether this would necessarily involve a reduction in the real value of the whole volume of money tokens in circulation depended on whether the volume of trade, or more correctly the total volume of payments, remained stable. Thus, if there were no changes in the demand for money, an absolute displacement of the Soviet money tokens by the Tchervontsi was inevitable. On the other hand, in the presence of an expanding turnover the process may have been limited only to a relative displacement of the Soviet money tokens.

At first, however, before the new bank notes became thoroughly absorbed into circulation, and while these notes represented to the public merely securities realizable at sight instead of a currency suitable for effecting payments, the relationship between the Soviet money tokens and the Tchervontsi was of a different nature. In the beginning of 1923, the bank notes actually played in the stock and money market the part of a particularly convenient security, of a commodity enjoying a steady demand rather than that of money. Their appearance consequently actually enlarged the turnover, thereby increasing the demand for money; and consequently at this stage the Tchervontsi, far from displacing the money tokens from circulation, actually strengthened their

position by creating a new market in which they could circulate.

As a result of this, a very optimistic view obtained in Russia in the beginning of 1923, regarding the future relationship between the two paper currencies. This situation was, however, merely a brief episode in the development of the history of the monetary circulation. For in proportion as the bank notes assumed the rôle of a general medium of exchange, the clash between the two forms of currency became inevitable.

These general remarks do not, however, give a complete picture of the relationship between the Treasury notes and bank notes. In reality the situation did not resolve itself into the bank notes occupying one sector of the circulation and the Treasury notes another, and the position was in actual fact more complex.

Bimetallicism in its two forms.

A monetary system consisting of two metallic currencies, the units of which circulate on equal terms side by side, is said to be bimetallic. Two forms of bimetallicism are distinguished: that of rated bimetallicism and unrated bimetallicism. In the case of the former, a definite ratio between the gold and silver coinage, based on the average market value of gold and silver, is fixed by law. The law establishes, for instance, that the ratio of the weight of the silver franc to that of the gold franc is 16 to 1. The debtor then has the option of making payment either in gold or silver money, and the free and unlimited coinage of both metals at the determined ratio is established. It is to this form of bimetallicism that Gresham's law properly applies; for, if the value of gold now rises above the ratio fixed by law and the market ratio becomes, say, 1 to 20, then the owner of 80 francs gold, having to make a payment of 80 francs, is in a position to buy a quantity of silver in the market, which he can have converted at the Mint into a hundred silver francs. After paying his debt in a portion of these silver francs, he will thus have 20 francs to the good. The inevitable result under these conditions would be the melting down of gold coin into bullion and a scramble among all owners

of silver bullion to get it coined. Gold coinage will, in fact, be driven from circulation and be entirely replaced by silver.

In the case of unrated bimetallicism, as in rated bimetallicism, there is a free and unlimited coinage of the two metals, but the relative values are determined, not by law but by the "higgling of the market." Under these conditions, neither coinage can be considered as "better" money in relation to the other, as the respective purchasing power of the units of the two currencies will be determined by the market value of their metal content. The condition therefore of one form of money expelling the other cannot arise. Gold money, in terms of silver money, is subject to constant fluctuations, as is also silver money in terms of gold money, and both remain in circulation.

A Case of two "Unrated" Paper Currencies.

We, in Russia, had not two metallic currencies, but two paper currencies, one of which was stable, and the other, depreciating. There was, therefore, no question of the legislature fixing a definite ratio in value between the one and the other. If we draw a parallel between two metallic and two inconvertible paper currencies, we might say by analogy that the system which prevailed in Russia was one of two "unrated" paper currencies, the exchange value between the bank notes and Treasury notes being determined by market conditions, i.e. by demand and supply.

If a creditor received from his debtor payment in Soviet money tokens instead of in the form of a Tchervontsi, he should on the face of it have incurred no loss, as he received payment at the market rate and should in consequence have been able, if he so desired, to exchange his Soviet money tokens into Tchervontsi at the identical rate of exchange. It would seem, in fact that, under the prevailing conditions, the struggle between the two paper currencies should on the grounds given above have resulted simply in the money tokens taking a secondary place, as small change to the Tchervontsi.

In actual fact, however, the struggle between the

Tchervontzi and Treasury notes had more far-reaching results. We had a system of two "unrated" paper currencies, but not in the full sense of the term as defined by us above. It was precisely this circumstance which gave rise to complications, which in their turn had a baneful effect on the whole of the economic life of the country and finally (in conjunction with other causes) made imperative the abandonment of a system which, while it had at one time answered the requirements of the situation, had now become obsolete and unworkable. This requires some explanation.

The Soviet money token still remained legal tender for the whole of the Soviet Republics, except the Transcaucasian Federation. All transactions effected in terms of Tchervontzi could, therefore, be settled at the option of the payer either in bank notes or in Soviet money tokens. An exception was only made in the case of the State Bank, which had the right of demanding payment in bank notes in discharge of liabilities expressed in terms of Tchervontzi.

If a liability expressed in Tchervontzi could generally be discharged by a payment in Soviet money tokens, or if goods priced in Tchervontzi roubles and kopeks (i.e. in multiples of a tenth and of a thousandth part of a Tchervonetz) could be paid for in Treasury money, this naturally postulated the existence of some exchange rate between the two units of currency, which would permit of the translation of the one into terms of the other.

This need, however, could only be met by the establishment of a rate which would admit of no dispute; that is to say, a rate fixed by a competent authority. At first the recognised rates were those fixed by the local Goods Exchanges, or their Stock Sections, but as a result of a legal enactment dated October 17th, 1923, it was laid down that the only recognised rate in future would be that fixed by the Stock Section of the Moscow Goods Exchange. An official exchange rate between the two currencies thus came to be established; and although the same rate was never in operation for more than twenty-four hours, it nevertheless exerted during this short space of time such influence as any legal rate exerts on trade conditions. The official rate

of exchange might or might not coincide with the rate of the free market. It might be higher or lower. One year's experience furnished instances of all these cases. A complete correspondence between the two rates at any given time was, it is true, hardly possible, because the Soviet money token was a steadily depreciating currency, and therefore the rate of exchange which reflected the market's valuation of the Tchervontsi at 2.30 p.m. on a given day (at which time the Rate-fixing Committee closed its sitting) rarely did so at the opening of the next day's market, for in the interval the Soviet money tokens had usually lost some ground as compared with the official quotation. At times, however, when the depreciation of the Soviet money token was slow and the money market dull, a small divergence in the rates could be of no particular moment: but by no means infrequently, particularly in the second half of 1923, the divergence between the rates was so great as vitally to affect the monetary circulation.

As payments could be effected in Soviet money tokens at the official rate of exchange, everyone was anxious to pay in these tokens and not in bank notes. Those who had bank notes would sell them first for Soviet tokens before paying for their purchases or settling their debts. An industrial or trading concern which had received payment in Soviet money tokens, anxious to avoid the losses consequent upon their depreciation, would hasten to buy Tchervontsi even at the higher rate likely to rule on the morrow, rather than keep the money tokens in the safe overnight. Such a state of affairs made it impossible for the official rate of exchange to keep pace with the open market rate, and had the effect of driving the Tchervontsi from circulation. The bank notes, on the one hand, began to be hoarded and, on the other, became objects of speculative investment and were gambled in freely by nearly the whole of the town population and even by large sections of the peasantry.

First Effects resulting from the System of two "Unrated" Paper Currencies.

The system of two "unrated" currencies circulating

simultaneously which became established as soon as the State Bank received the right to issue notes, produced at first certain beneficial results. It gave the national economy in the first place a comparatively stable currency,* without which no such substantial economic rehabilitation as was witnessed in 1923 could ever have taken place. Trading concerns were placed in a position of being able to draw up balance sheets, and the conduct of their business on commercial lines actually became a reality.

Secondly, it effectively overcame the danger of the penetration of foreign currency and pre-war gold coinage into circulation—a danger which, as we have already seen, was very real in 1922 and which, if allowed to materialise, might easily have wrecked the financial restoration which was in progress.

Thirdly, it afforded the possibility of increasing the total volume of currency in the country, for the circulation absorbed a far larger quantity of stable bank notes than it could have done, had the new purchasing power been in the form of depreciating Soviet money tokens. Repeated Treasury issues could never have yielded anything like the same results as those attained by means of Bank issues, and this, in its turn, admitted the possibility of extending credit to assist industry and trade on a scale which, in the absence of bank note issues, would have been impossible.

Fourthly, the base of the Tchervontsi and the support of their foreign exchange rate made it possible to strengthen Russia's connections with the world market and establish contact with foreign credit institutions.

The Unsustainability of the System in the long run.

But the prevailing system had also its serious drawbacks, and the longer it lasted the more did the disadvantages come into evidence.

The divergence between the official and unofficial rates of exchange, which we have mentioned, became at times so burdensome and destructive that this circumstance alone made it necessary to seek a way out of the situation. The speculative fever, to which it gave rise, spread like

wildfire, everybody becoming a buyer and seller of Tchervontsi. No business concern could escape the necessity of speculating and of taking part in street corner transactions, since neither the official nor semi-official Bourses could satisfy its requirements. To add to these unhealthy features of widespread speculation, other results inevitably followed introducing yet further disorganisation into the economic life of the country. The introduction of a stable currency, which at first could be achieved only by establishing a system of two "unrated" currencies circulating side by side, had for one of its main objects the provision of a basis for economic calculations. But the chaos, into which the prevailing system soon relapsed, precluded the possibility of realising this object.

It is of course of the very essence of a sound system of accountancy that the smallest item in overhead charges should be taken into account. In the prevailing atmosphere of wild currency speculation precise calculations became useless, and therefore psychologically impossible. One hour's difference in buying Tchervontsi, or in paying them in at the bank, produced a difference in profits or losses to the extent of two, three, or even five per cent. Under such conditions careful treatment of overhead charges naturally lost all point; and endeavours to conduct business on profitable lines were mainly reduced to attempts to make successful currency transactions. It is hardly necessary to stress the disastrous effects of such conditions upon the trade and industry of the country.

The expulsion of the stable currency from circulation, and the return to the practice of paying in depreciating Soviet money tokens while continuing to calculate in stable values (Tchervontsi), coupled with the need of constantly exchanging the depreciating currency into stable currency by buying the Tchervontsi in the open market—all this combined to lead to most baneful results. A retail merchant's till would become filled in the course of a day with a quantity of Soviet money tokens. He could not convert them into Tchervontsi until the following day and thus lost money through keeping them over night in his till; and his position was further aggravated in that

whilst being legally compelled to accept Soviet money tokens at the official ruling rate, he could only buy Tchervontsi at the open market rate. So to cover himself against the rise in the rate during the twenty-four hours he would add to his prices from 3 to 5 per cent., and probably as much again to offset the loss which he would incur as a result of the difference between the official and market rates.

But in as much as his prices were expressed in terms of Tchervontsi roubles and kopeks—which towards the beginning of 1924 became the almost general practice—gold prices, that is to say, prices expressed in terms of stable currency also began to rise. This did not occur as a result of an actual fall in the purchasing power of the Tchervontsi, but because the prevailing mode of payments and settlements and the difference in the rates of exchange distorted the whole position of the market. While this applied chiefly to the retail trade, wholesale prices were also partly affected; for the wholesale merchant, too, had to face losses on exchange, which he shifted to his customers. In the agricultural produce market in particular such losses by the peasants were a common occurrence.

No one obviously wants to bear the losses occasioned by depreciations in a currency; and it was only natural that everybody should have endeavoured to shift the burden of the resulting loss on to somebody else's shoulders. Trade and industry sought to shift their losses to the banks; banks, in their turn, tried to shift theirs back on to their clients, the industrial and trading concerns. The peasantry was the last to take part in this struggle; but eventually it too was inevitably drawn in.

As a result of these tribulations relations between town and countryside became quite abnormal. The more prosperous peasants were already in possession of the new Tchervontsi, but they still lay almost entirely beyond the reach of the bulk of the peasantry. The position, in fine, was that the Tchervontsi had *par excellence* become the currency of the towns, whilst Soviet money tokens still remained the predominant currency in the

villages. This the peasantry would not tolerate, for they, too, at last became conscious of the fact that to accept payment for their produce in Soviet notes was "bad business." They consequently eventually adopted the methods of the townsmen, and began selling their produce in such quantities only as would yield sufficient cash in Soviet money tokens to buy the goods for which they stood in immediate need.

Arriving at the market-place with his produce the peasant would first of all make a note of the prices ruling for those articles which he had decided to buy with the proceeds of his sale, such as nails, calico, etc.; and would then sell only just enough of his produce to cover the purchase of, say, a funt of nails or five archines of cotton fabric. Although he could have brought to the market, say, ten poods of flax, he would actually bring with him only one pood, and disposing only of one half of that quantity, would return to the village with the rest, rather than sell for depreciating currency.

Under these circumstances the supplies of agricultural produce on the markets diminished. Prices began to soar from month to month. Between November 1st and January 1st the index number of prices for agricultural produce rose by 544 per cent., whilst the corresponding increase in the index number of manufactures was 387 per cent. This resulted in a general contraction of the trade turnover, i.e. in a disintegration of the very foundations of the economic well-being of the country.

Furthermore, workmen who received wages in Soviet money tokens (and it was more profitable for industrial undertakings to pay them in this currency) were naturally anxious to turn their money into goods as soon as possible. The effect of this wholesale buying, which recurred at regular intervals, that is to say every time fresh purchasing power was put in the hands of the workers, produced successive sharp depressions in the value of the Soviet money token.

Finally (quite apart from the fact that in a country where most of the industrial and trading undertakings and the entire transport are the property of the State,

the incidence of the so-called "emission tax" is shifted almost entirely on to the shoulders of the State itself, and the increase of the note issue becomes a mere technical expedient for attaining fictitious semblance of equilibrium in the State balance sheet) the advantages arising from the continued use of the printing press, even from the narrowest standpoint of the Treasury's immediate interests, were rapidly dwindling to all but vanishing point.

To make matters worse, traders in their struggles with the consequences arising from the disorganised state of the currency began to introduce various substitutes for "small change," in order to escape altogether the necessity of using Soviet money tokens. A multiplicity of such substitutes expressed in terms of gold made their appearance in the country, particularly during September and October, 1923. This outbreak of unofficial note issuing was suppressed by measures of administrative and judicial repression; but the practice was repeatedly resorted to here and there. These sporadic outbursts of revolt on the part of traders against the prevailing system of currency brought into sharp relief the intolerable character of the situation.

Soviet money was rapidly becoming useless; and this was clearly reflected in the greatly reduced part it was coming to play in the circulation. Whilst in November, 1922, the entire volume of monetary media in the country consisted of depreciating Soviet money tokens (if one excludes from consideration the metal money which circulated in the border provinces), by January 1st, 1923, the proportion of old currency notes to the total had decreased to 50 per cent. and from then onwards the ratio grew always smaller until by February 1st, 1924, the real value of the old currency amounted to barely one-tenth of the total value of money in circulation.

The position was clearly anomalous. The quantity of depreciating currency in proportion to the total was insignificant, but its presence was sufficient to disorganise the monetary circulation and to reduce the national economy to a state of havoc. Once more the country was face to face with the inexorable necessity of reorganising its monetary system.

THE REFORM OF 1924

Summary of Conditions precedent to the Reform.

THE necessity of resorting to Treasury issues at a rapidly increasing pace—and indeed almost to the utmost possible limits—during the first period of the New Economic Policy, and under such unfavourable conditions moreover, as those resulting from the failure of the crops and consequent famine, led to a rate of depreciation in Soviet money tokens in 1921-22 which exceeded even that of the period of War Communism. The profound disorganisation of the entire monetary circulation forced the public to turn to such expedients as calculating in "goods roubles" according to price indices, in "gold roubles" according to the official rate of exchange, and sometimes even in gold according to the value of actual gold coins. But the national economy could not become reconciled to the position. It required not only a stable standard of value, but also a stable medium of payment. The bank notes of the State Bank provided precisely such a medium of payment, and supplied the country with a currency with which it could no longer dispense. But the issue of bank notes simultaneously with the continued use of the printing press by the Treasury had brought into being a system of two "un-rated" paper currencies circulating side by side, which after the first year had produced results that were intolerable and in one way or another had to be brought to an end. Conditions were indeed ripe for a new monetary reform. During the autumn months of 1923 the People's Commissariat of Finance had been actively engaged in preparing its plans, and in the beginning of 1924 they were put into practice.

The Economic Position at the Time of the Reform.

In the preceding Chapters we have examined the monetary conditions which made reform inevitable. What was the economic situation under which the Reform had to be carried through? To examine the then situation in *extenso* would be tantamount to analysing the position of the entire national economy. In this brief outline however we can only indicate such of its aspects as were taken into consideration by the Commissariat of Finance when drawing up its plans.

The position in some of the branches of industry and of transport in 1922-23 is reflected in the following table:

	Monthly Average for 1923.	October 1922.	October 1923.	Increase for the year.
Coal production.				
(In million poods)	141.5	39.2	72.5	83%
Mineral oil production.				
(In million poods)	46.9	25.2	28.1	11%
Iron smelting.				
(In thousand poods)	21,430.0	1,079.0	2,671.0	147%
Cotton yarn spinning.				
(In thousand poods)	1,525.0	390.0	502.0	28%
Woolen yarn spinning.				
(In thousand poods)	183.0	73.0	101.0	38%
Flax yarn spinning.				
(In thousand poods)	236.0	138.0	231.0	67%
Leather production.				
(In thousand poods)	—	351.0	506.0	43%
Railway Freight turnover.				
(In million poods)	—	289.0	382.0	32%
Average daily loading				
(Per 100 versts of the railway system in railway trucks)	—	18.0	24.0	33%

These figures are low enough as compared with pre-war figures, and in some cases are quite insignificant, approaching only in a few instances the level of 1913. But they show a certain progress during the second year of the New Economic Policy. The improvement testified to an expansion of the trade turnover, i.e. to the

presence of a factor which was of paramount importance in determining the prospects of monetary circulation. For the expansion of the trade turnover is of course tantamount to an expansion of the requirements of the national economy for money. The whole Reform of 1924 was indeed based on the assumption that this expansion would continue, that the country would require in future a larger proportion of circulating media than it was using at the time, and that it would be possible in consequence to issue a certain further quantity of circulating media without producing inflation.

The increasing requirements of the trade turnover for money were revealed, not only by the data contained in the foregoing table: the existence of the tendency was also clearly shown by the increase which took place in the real value of money in circulation as shown in the subjoined table:

		Real value of money in circulation. (Soviet notes, Bank notes, and Trans- port certificates.)	
		In thousands of gold roubles.	
		According to the Index number of Retail Prices compiled by the Dept. of Labour Statistics.	According to the Index number of Wholesale Prices compiled by the State Planning Commission.
July 1st, 1921	..	29,072·4	—
January 1st, 1922	..	60,900·8	—
July 1st, 1922	..	53,305·8	—
January 1st, 1923	..	96,693·2	150,979·7
July 1st, 1923	..	121,601·1	145,842·4
January 1st, 1924	..	177,516·3	257,641·8

After a period of fluctuations occasioned by the failure of the crops in 1921, we witness, not merely a continual, but a very substantial, increase in the value of the total volume of monetary media in circulation, namely a six-fold increase over the entire period under review, a threefold increase in the first eighteen months and an increase of 83 per cent. and of 98 per cent. in the first year, according to the Index Number of Retail Prices and the Index Number of the State Planning Commission respectively. Whilst it would have been imprudent of

course to expect that the same ratio of increase would be maintained during the coming years, there was nevertheless ample reason to anticipate that with the gradual abolition of the practice of collecting taxes in kind (this reform was already under way in 1923 and was expected to be completed in 1924) and with the return to money taxes, the principal factor in determining the increase of the country's requirements in currency was likely to remain effective. Moreover, it had to be borne in mind, in estimating the prospects for 1924, that the replacement of the old currency, and especially the introduction of silver coins, would greatly reduce the rapidity of circulation of money of smaller denominations, and that this in its turn would lead to an increased demand for circulating media.

As regards the foreign trade balance, which in Soviet Russia with her Government monopoly of foreign trade depends mainly on the export and import plans of the Government, this promised in 1923-1924 to become for the first time for several years a credit balance, and in fact actually proved to be such while the new financial reform was still in preparation. The Commissariat of Finance was therefore justified in expecting that the task of supporting the foreign exchange rate of the Tchetvenets would present no great difficulties, provided that it could succeed by stabilising the Soviet currency in putting an end to the practice, which had become fairly prevalent amongst the population, of keeping savings in foreign notes (mainly in dollars and pounds).

The Role of Note Issues in covering the Budgetary Deficits.

If these fairly favourable conditions were on the whole auspicious for the new Reform, the main problem hinged upon the Budget, i.e. upon the question as to what proportion of the budgetary deficit would still have to be met by further Treasury issues. Indeed the chief difficulty at the time the Reform was being carried through, lay precisely in the fact that the necessity of issuing paper money to cover the budgetary deficit had not yet been outlined. The Commissariat of Finance based its plans on the fact that the importance of note issues as a means

of covering the deficit was steadily diminishing, particularly in the sense that in relation to other sources of income the printing press was coming to play an increasingly smaller part. Actually, during the first quarter of 1923, the Treasury had covered 30·8 per cent. of the total expenditure by the issue of paper money, during the second quarter 26·4 per cent., during the third quarter 14·2 per cent., and during the last three months of the year only 9·6 per cent. This encouraged the hope that there would be no need for paper issues in balancing the Budget in the next (1924-5) financial year. Until then it was considered safe to issue a further 50 to 100 millions of new money without fear of depreciation in its value. The mere knowledge that the Soviet money tokens were to be replaced by more stable—and consequently less rapidly circulating—money would result (it was felt) in an increased demand for purchasing media.

Fallacy of the Opposition to the Monetary Reform.

In this context we should cite one objection, which was repeatedly put forward at the time by some of the more uncompromising opponents of the Currency Reform. "If the position is as favourable as it would appear to be," they argued, "why should a reform of the currency be necessary at all? Why not retain the Soviet money token and make an attempt to stabilise it?"

The fallacy which lay at the root of this objection was that it failed to take into account two important circumstances. In the first place, with an average monthly deficit of 15 million roubles gold to be covered by fresh note issues, at least half that amount again was necessary to cover the losses on exchange sustained by the Commissariat of Finance, and the Railways, Posts and Telegraphs; and therefore the actual amount of purchasing media required monthly was thereby raised to 22-23 million roubles. The whole of this amount had to be provided by the Soviet money tokens alone; and the real value of these by the beginning of 1924 had fallen to below 40 million roubles. Had these conditions been allowed to endure, we should have continued to witness violent falls in the purchasing power of the money tokens,

with all the dire consequences described in the preceding Chapter, the general speculation, the constant rises in prices, the struggle to shift the burden of losses due to the differences in the rates of exchange, the adoption of substitutes for Treasury money, the economic rupture between town and country, the disappearance of stable currency from the market, etc. On the other hand, the issue of 15 million roubles, if spread over the whole field of circulation (represented by a total of 350 million roubles) instead of the narrow sphere in which the Soviet money tokens still circulated, could produce no adverse impression at all, especially if it were borne in mind that the new money was bound to circulate much more slowly than the Soviet money tokens and the demand for it would accordingly be greater.

The second point which escaped the attention of the opponents of the Reform was that the very necessity of constantly revising values expressed in terms of Soviet money tokens was itself a factor, and a by no means unimportant one, in promoting the depreciation of the currency. The task was to arrest the momentum of the depreciation acquired by the currency, and this could be achieved by drastic measures alone.

Some Debatable Points.

We have shown above that the condition into which the monetary circulation had fallen inevitably raised the problem of currency reform. The broad lines of reform were clearly indicated by the whole experience of the preceding two and a half years. * After the general adoption of the principle of calculating values on a gold basis, and the introduction of the Tchervonetz as a measure of value, the reform could only consist in discontinuing the issue of money tokens, in withdrawing them from circulation and in replacing them by money expressed in terms of gold, i.e. by money which would in one way or another be linked to the Tchervonetz. There still remained outstanding a few technical questions which admitted of various solutions, the principal amongst these questions being, whether to resort to the issue of bank notes of small denominations or to issues of new Treasury money.

The existing financial and economic conditions pointed generally to the latter course, for to discontinue Treasury issues altogether and to allow the State Bank to issue bank notes of small denominations would have implied the necessity of allowing the Treasury to borrow from the State Bank. Nothing could, of course, have been more prejudicial to the Bank's issues. For, even if these loans were kept on a small scale, they could not have failed to shake confidence in the State Bank, both in the country itself and abroad. To have taken such a step in 1924 would indeed have been to court disaster. True, it was necessary to establish a certain connection between the Treasury note and the bank note; otherwise the discontinuance of the issue of Soviet money tokens would have lost all practical significance. But the task was to make this connection as elastic as possible. While counting on the success of the Reform, the Government could not overlook the possibility of complications: and it was this consideration which determined the decision to retain the Treasury issues side by side with issues of the State Bank.

The second question was, whether to confine the new issues to paper money only, or to make them include metallic currency as well. At that time there could naturally be no thought of returning to a gold circulation, but it was considered highly desirable to issue silver coins in order to provide the Treasury issues with a more solid foundation. Silver money is of course only token money, but the population was accustomed to it in the past, and after its absence from circulation for nearly ten years, it was held that its reappearance would exert a favourable influence. It was especially clear that silver coinage would be welcomed by the peasantry.

The third question which required a solution was the exact mode of putting an end to the issue of Soviet money tokens. It was of course taken for granted that these issues would be discontinued as soon as new money was issued, that the old issues would have to be redeemed, and that a definite rate would have to be fixed for this redemption; and further that, as soon as this rate of redemption was fixed, the money token would become

stabilised at a definite rate to the new money. The question, however, as to the right moment for fixing this rate and for proceeding to the redemption of the old notes was a debatable point. There were two considerations which prompted the adoption of the final decision that a certain time should be allowed to pass between the issue of the new currency and the fixing of the rate for the redemption of the old.

In the first place it was deemed desirable that the new money should be taken up with the largest possible measure of eagerness. It was too much to expect that the circulation would absorb a larger quantity of new money than the existing amount of the depreciating currency from the very first day of the Reform. It was therefore necessary to issue new money in such a way that it should not come, as it were, into a reservoir already full of money, but, so to speak, into a vacuum created gradually by the shrinkage of the old depreciating currency under the pressure of new money. The fixing of the rate for the redemption of the currency could only follow after the population had become somewhat acquainted with the new forms of circulating media.

The second consideration was that, if the dates of the issue of the new money and the redemption of the old were made to coincide, the reform would be too reminiscent of the two successive devaluations of 1921 and 1922. Indeed, if the authorities had declared that they would issue notes of a new pattern, a rouble of which would be equal to 10,000 roubles of the 1923 pattern, the probable impression on the public mind would have been that the reform consisted in a mere renaming of the money. Although this impression would doubtless have been finally removed by the fact that the new rouble was to be made legal tender for the discharge of a debt of one rouble gold, and it was in this that the difference lay between the new currency and the old, yet it was considered best not to create conditions which might give rise to undesirable misapprehensions. It was deemed expedient to show the vast difference between the currencies by allowing them both to circulate simultaneously for a short time; but it was realised at the same time

that in the interests of the national economy, such a state of affairs should not be allowed to last beyond the briefest possible time.

The Decree of February 5th, 1924.

The above considerations lay at the root of the measures which the Government adopted in the Currency Reform of 1924.

The first legislative step taken was the Decree of February 5th, 1924, concerning the issue of the new Treasury notes. The Decree laid down that the new notes were to be issued in denominations of five, three and one roubles gold. It did not, however, associate the value of the new Treasury note either with the old Soviet note or with the Tchervonetz. What, then, was the monetary unit and the measure of value that the new Treasury note represented?

The answer is that the Treasury note is legal tender money which is accepted at its face value in all cases where an obligation is expressed in terms of gold. There were many examples in the financial history of the recent past when obligations were expressed in terms of gold, e.g. in the case of Customs duties, and State Lotteries (lottery bonds, short-term Treasury bills, etc.). The use of gold as a measure of value was therefore no novelty.

Still more widespread was the practice of measuring values in Tchervontzi and "Tchervontzi roubles" (tenths parts of the Tchervonetz). The Decree however ignored the relation between the "gold" and "Tchervonetz" roubles. In practice there was no difference between the two modes of reckoning. The value of the gold rouble in terms of Soviet money tokens was fixed by a special *ad hoc* Commission, and that for the Tchervonetz rouble by the Stock Section of the Moscow Goods Exchange. From the autumn of 1923 both rates had invariably coincided. The country had thus become used to both these rates being identical, and there was no need to make any change in the existing position. There was, on the contrary, every reason to leave matters as they were. It was of the very essence of the Reform that the State Treasury note should be linked with the bank note

of the State Bank and that it should come into circulation with the latter acting, as it were, as its support. The reason why this was not clearly laid down in the Government decrees was due to the fact that it was considered unnecessary to predetermine once and for all the fate of the monetary circulation, nor was it indeed possible to foretell the course of future developments. However, that which it was found expedient to omit from the Decree was realized in practice by other means. The Pay-offices of the People's Commissariat of Finance, the State Bank and all other credit institutions began to accept the new State Treasury notes at the rate of ten gold roubles in Treasury notes to one Tchervontsi, without any limitations as to the sum. At the same time, the State Bank and other credit institutions began to exchange Treasury notes into Tchervontsi and Tchervontsi into Treasury notes on the same terms. The State Bank was not permitted, however, to issue new bank notes in exchange for Treasury notes. All it could use for the purpose was the available cash in its tills.

Such cash funds in Tchervontsi could of course be available, provided the issues of Treasury notes did not exceed the actual requirements of the trade turnover in this particular form of currency.

That the latter condition should be rigorously observed was for obvious reasons of the utmost importance, and Article 5 of the Decree of February 5th, accordingly placed a restriction upon the aggregate issue of Treasury notes, which was not to exceed one half of the amount of the Tchervontsi in circulation.

In fixing this limit the legislators were in the first place guided by the experience of pre-war days when coins and notes of denominations lower than ten roubles formed 40 per cent. of the total volume of money in circulation, and if the newly established proportion of 33½ per cent. was somewhat lower than that of pre-war times, this was due to the fact that the purchasing power of the rouble had declined as compared with 1933.

But the authors of the Decree in fixing a definite ratio between the Tchervontsi and Treasury note issues, were also prompted by the not less important considera-

tion that, even if the turnover of trade were expanding and with it the demand for currency, the danger of inflation would be relatively smaller in the case of bank note issues, since these (if kept on normal lines) would follow the expansion of the trade turnover. The State Bank, as the note issuing body, has indeed all the necessary facilities for gauging the actual requirements of trade for money, and can regulate its issues accordingly. The Treasury, on the contrary, has no such means at its disposal.

The following explanation may serve to make the point clearer. The Bank discounts bills and makes advances against goods. These bills and goods are tangible evidence that a movement of values is taking place in the market, and this movement is only made the easier by the Bank delivering the bank notes against the bill. The Treasury on the other hand issues its notes against official appropriations which have no bearing upon the actual requirements of trade. Such issues by the Treasury may, in fact, be very considerable when trade is on the decline, and very small when trade is expanding. Having thus no reliable basis to work upon, the Treasury could not possibly be expected to keep its issues within the bounds of the legitimate requirements of trade, unless they were put into definite relation with the issues of the State Bank.

The reason then of fixing the statutory ratio between the Treasury notes and bank notes in circulation was primarily to provide against the dangers of an over-issue with the attendant disturbances of the price level.

As stated above, the issues of the State Bank are governed by and reflect the requirements of trade; but bank notes are issued only in comparatively high denominations, and it is here that the Treasury steps in by providing the country with the necessary amount of small change. Still, to preclude any possible danger of inflation, the Bank must necessarily proceed with its note issues with the utmost caution, or with a larger measure of it anyway than would be necessary in the absence of simultaneous issues by the Treasury.

The Decree of February 14th, 1924.

The second legislative measure connected with the Reform was the joint Decree of the Central Executive Committee and the Council of the People's Commissaries of February 14th, which prescribed that the printing of Soviet money tokens in the presses of the Commissariat of Finance, and their issue from the Currency Department and local offices of the Commissariat, should be discontinued as from February 15th. Whatever notes were left by that date at the presses and local offices were to be destroyed. Such notes however as had been issued before February 14th, and were held by the Cashiers of the Commissariat of Finance, by Government and Co-operative institutions, concerns and private persons, were to remain legal tender on the same terms as before, pending the issuance of a special ordinance concerning their redemption.

The Decree of February 22nd, 1924.

The third legislative enactment in the series of currency reform was the joint Decree of the Central Executive Committee and the Council of the People's Commissaries dated February 22nd, dealing with the mintage and issuing of silver and copper coins. That portion of the Decree which deals with the mintage of coins reproduces the regulations embodied in the pre-revolutionary Coinage Statutes. The Government thought it expedient to retain the former proportion of pure silver and copper in the coins and to make no alterations in respect of their weight, diameter or any other details. The country was thus given a coinage exactly corresponding to that which it was accustomed to before the War. The only change was in the designs, which were new.

As for the regulations governing the issue of the new coins, they amounted in substance to the following: Two different kinds of silver coins were to be issued—those with a lower proportion of alloy, in denominations of one rouble and 50 kopeks, and those with a higher proportion of alloy in denominations of 20 kopeks, 15 kopeks and 10 kopeks. The copper coins were to be of 5, 3, 2, and 1 kopeks respectively.

One rouble in silver or copper was placed on a parity with one rouble in State Treasury notes. The whole system of currency was thus brought into uniformity; and, whilst the relation between the two forms of paper currency is governed by a *de facto* rate established and maintained through the joint action of the State Bank and the Treasury, the rate of exchange between silver and copper coins on the one hand and Treasury notes on the other is formally fixed by statute.

In regard again to the tender of silver and copper coins, the old regulations of the pre-war Coinage Statutes were revived. Coins with a lower proportion of alloy (one rouble and 50 kopeks) are legal tender up to 25 roubles, and those with a higher proportion of alloy (20, 15 and 10 kopeks) and copper coins up to three roubles. Both silver and copper coins are however legal tender to an unlimited amount for payments to the Pay-offices of the Treasury.

The issue of silver coins constitutes one of the most vital measures of the Reform, but in order to make it really effective it was necessary to issue these coins on a sufficiently large scale relative to the note issues, and such indeed was the view taken by the legislature, which therefore definitely prescribed that the Commissariat of Finance should issue by January 1st, 1925, silver and copper coins to the amount of 100 million roubles. Although the Decree in question did not specify what proportion of this amount should consist of silver, it was clear that silver coinage was mainly intended, and that the proportion of silver coin should form about nine-tenths of the total amount. The provisions of the Decree were duly carried out by the Commissariat, and it has proved possible to issue silver from month to month at an increasing rate. At first, people took to hoarding the new silver coins, but as these made their appearance in ever growing numbers, the community soon ceased to look upon them as rarities, and the practice stopped after the first month or two.

In the carrying out of the Currency Reform on the above lines, certain technical difficulties were encountered, which though annoying could not, and should not, have

caused any departure from the original plan. The Mint was inadequately equipped to complete the work in the short time prescribed, and the Commissariat of Finance was therefore empowered to issue temporary notes in denominations ranging from 1 kopek to 50 kopeks which were to be exchanged freely into coins at their full nominal value not later than January 1st, 1925.

The Decree mentioned above also dealt with the silver coins of pre-revolutionary mintage which it declared demonetised. The reason for this lay in the fact that the old silver coins, which circulated on a large scale before the war, and of which large quantities were still hoarded in the country, would necessarily have re-appeared and barred the way for the new issues.

Some exception was taken to this measure at the time on the score that the demonetisation of the old silver coins might prejudice the public against the new ones; but these apprehensions proved groundless.

The Decree of March 7th, 1924.

The fourth Decree, which was issued on March 7th by the Council of People's Commissaries fixed the rate for the redemption of the Soviet money tokens, and completed the series of currency reform enactments. The rate of redemption fixed by this law, which came into operation as from March 10th, 1924, was 1 rouble gold in Treasury notes per 50,000 roubles of the 1923 issue, and proportionately for all previous issues.

Since the rouble of the 1923 issue was then equal to one million roubles of the pre-revolutionary and post-revolutionary issues up to 1921, the Decree of March 7th actually fixed the depreciation of one rouble in Soviet money tokens at one-fifty thousand millionth (one hundred millionth) part of their former value.

However enormous this depreciation may appear, it by no means represents a record figure, since the German mark in 1923 actually exceeded in depreciation the low water-mark reached by the rouble. Nevertheless the collapse of the Soviet currency by far outstrips anything which might have been considered possible only a few years ago by those versed in matters monetary. It may

be remembered that the assignats of the French Revolution which were usually held up as a classical example of depreciation in inconvertible notes, declined only to one three-hundredth of their original value.

Examining the Decree of March 7th in the light of current economic concepts, it may seem that the provisions it laid down for the redemption of the old notes might justly be described as a devaluation of the currency, i.e. the stabilisation of the monetary unit at a definite stage of depreciation coupled with a final refusal of the Government to maintain the original rate of convertibility, that is to say, to honour what was formerly deemed its obligation. To state that the terms of the Decree can be identified with "devaluation" would, however, be to put an unwarrantable strain on the meaning of the term. It is true, of course, that there was a link of continuity between the credit note of the former State Bank and the Soviet token; but the abrogation of the undertaking to maintain convertibility against gold—which in effect ceased to be possible as early as 1917—cannot even from a purely juridical standpoint be attributed to the Decree in question, but must be ascribed to the entire corpus of financial legislation of the first years of the Revolutionary period. The very raising of the point at the time was, under the existing circumstances, an issue of purely academic interest; and we only refer to the subject in this connection to emphasise the true nature of the currency which passed away as a result of the 1924 Reform.

The "credit note" of the pre-revolutionary State Bank was replaced in due course by the "reckoning token of the R.S.F.S.R."; and the "Soviet money token" eventually took the place of the latter. Neither the "reckoning token" nor the "Soviet money token" represented a liability of the State or Treasury. Both were in the full sense of the term paper money—i.e.—money which the State equipped with the power of being used in discharge of debts arising in the process of trade, but which it did not regard as constituting a debt obligation of the State itself. The very inscription on the notes declaring that they were secured "by the entire

possessions of the State " was void of significance, since in the absence of any element of obligation the question of security could not properly arise. (The fact that this inscription was still maintained, indeed, only shows the persistence of verbal formulas, which continue to be used long after they have lost their practical meaning.) Even had a definite rate of convertibility been fixed for Soviet money tokens against gold, the term devaluation could not be applied except by analogy.

The End of the " Goods Rouble."

The entire essence of the Reform of 1924 is contained in the four enactments which we have described above. But, in order to dispose of the relics of the chaos from which the system of currency had just emerged, the Government passed yet a fifth act which should be mentioned here.

On February 29th, 1924, the Council of Labour and Defence issued an ordinance prohibiting as from March 1st, 1924, the conclusion of agreements and the contraction of liabilities, as well as the fixing of price lists and tariffs, on the basis of " goods roubles." Such contracts and liabilities as had been entered into prior to March 1st on the basis of " goods roubles " were to be translated into terms of gold roubles not later than March 31st, 1924. Or late this system of calculating in " goods roubles " had been practically abandoned except in the case of wage agreements, and a further order, issued by the Council of Labour and Defence on the same day, therefore laid down the general principles on which such translation of wages into terms of gold currency should be effected.

We have already seen under what conditions the idea of the " goods roubles " originated, and how it came to be adopted in practice. In course of time these conditions practically ceased to exist, and the retention therefore of this peculiar method of calculating in commodity roubles exercised a detrimental influence on the whole monetary system. It forced industrial and trading undertakings to calculate their production expenses in two distinct units of value; it made the masses indifferent to the question of the level of commodity prices, for

wages came to be fixed without reference to it and it therefore aggravated the problem of stabilising prices with which the Government was grappling; finally it revealed a lack of confidence in the State system of currency. All of which was sufficient to account for the Government's determination to put an end to the practice which, though an inevitable outcome of the monetary conditions of 1921 and 1922, was at the same time one of the causes which aggravated the depreciation of the currency.

The various legislative enactments were put into force without delay. Thus the issue of State Treasury notes started on February 8th. On February 26th the issue of silver coins commenced. By May 10th the Soviet money tokens ceased to be legal tender, and after that date were accepted only by the Pay-offices of the Commissariat of Finance and of the State Bank.

MONETARY CIRCULATION AFTER THE REFORM.

The Justification of the Government's Expectations.

THE Financial Reform of 1924 may be said to have been inaugurated on February 10th, 1924, when the Decree prescribing the discontinuance of further issues of Soviet money tokens was promulgated. More than twelve months have passed since then, and we may now consider how far the anticipations of the authors of the Reform have been realised and what new conditions have emerged.

Let us first pass under review the fundamental premises on which the Reform was based. It will be remembered, from the preceding Chapter, that the Commissariat of Finance had expected in the first place that the general economic development of the country, in conjunction with the abolition of the moneyless system of distribution and exchange, would increase the requirements for money of the trade turnover; secondly, that during the seven months (March—September, 1924) not more than 100,000,000 roubles (gold) worth of new money would have to be issued to cover the budgetary deficit; and finally, that a favourable balance of payments would enable the Government to support foreign exchange rates at a stable level. It should be remembered also that the Government's expectations that an increase of the total money in circulation would not lead to inflation were based not only on a prospect of a likely expansion of trade, but also on the belief that the replacement of rapidly depreciating money by a more stable currency would result in a substantial decrease in the rapidity of circulation.

These expectations have been fully justified. We need not deal here in detail with the state of industry. Suffice

it to say that, in spite of the failure of the crops in 1924, the increased production in the principal branches of industry has been maintained and that the year 1924 witnessed a considerable expansion in the turnover. Furthermore, the velocity of circulation has indisputably decreased, which was shown by the increased cash reserves held by the State and Co-operative concerns. The increase in the total volume of currency in circulation during the past year, details of which are given below, has been very considerable. True it was smaller than the corresponding increase in Germany after her reform but it must be remembered that conditions in the two countries were different: in Russia the amount of foreign currency, of various substitutes for money and of local issues was comparatively quite insignificant.

Events have also proved that the Government's expectations regarding the budgetary conditions in the second half of the financial year (1923-4^{*}) have not erred on the side of optimism. The issue of new money for the purpose of covering budgetary deficits did not reach after the Reform the 200 million roubles limit, that is to say, the figure which had been fixed as a maximum. During the first three months, beginning in March, about 25,000,000 roubles were issued monthly to provide for the payment of credits. During August and September the monthly Treasury issues for covering the budgetary deficits were, however, reduced by half. The total amount of money issued for this purpose up to the end of the financial year (March-September, 1924) reached in round figures only 85,000,000 roubles. The composition also of the issue for budgetary purposes has shown a steady improvement. During the first few months following the Reform the Treasury issued (to meet the deficit) about two-thirds of the total issue in paper money and one-third in silver. From July 1st the issue of paper money for this purpose finally ceased, and thenceforth only silver coinage was issued. When the Budget of 1924-1925 became definitely outlined (in

* The Soviet Financial Year covers the period between October 1st and September 30th.

November, 1914) a new law was promulgated prescribing that no further issues of paper money should be made for the purpose of covering deficits, and making silver coinage the sole source of " emission revenue."

The Advantages of Silver Coinage over Notes of Small Denominations.

Whilst it is true, of course, that an excessive issue of silver coin can produce an inflation of currency in the same manner as an over-issue of notes, the temptation to cover expenditure by the issue of silver is considerably less than the temptation to cover it by note issues.

In Russia the average cost to the State of the silver coinage now in circulation amounts to 30 per cent. of its face value, and although the mintage of silver still remains attractively profitable, the high rate of its cost effectively precludes excessive issues, which only too frequently take place when new purchasing power is created by means of the printing press. Furthermore, as the experience of the last months has served to prove, the requirements of the trade turnover for money of low denominations are still so great that the circulation can continue to absorb very large quantities of silver coin, without such additions to the volume of currency exerting any adverse effect on the price level. Thus the 1924-5 Budget provides for an issue of silver coin to the large amount of 80 million roubles.

Russia's International Balance of Payments.

With regard to the country's balance of payments too, the anticipations which were officially entertained on the eve of the Monetary Reform have on the whole been realised. Despite the fact that in the last quarter of the 1923-24 economic year the import programme was considerably extended, the position of the foreign exchanges during the entire period beginning with the introduction of the Reform has shown a high degree of stability, and as we shall see below, it became possible following on the Reform to establish a foreign exchange rate corresponding to the gold parity of the Tchervonets—or which is, in effect, the same—to the gold parity of

the pre-war rouble. Although the position of the foreign exchanges is naturally closely dependent on the prevailing system of foreign trade monopoly, which facilitates the maintenance of a favourable balance of payments, yet this only furnishes additional proof that in the absence of a monopoly of foreign trade, the measures for supporting the exchange which were taken by the People's Commissariat of Finance would alone have proved insufficient.

Currency Conditions since the Reform.

Following upon these observations we may now proceed to an examination of the condition of the monetary circulation after the 1924 Reform.

In the previous Chapter we gave the principal facts and figures relating to the situation up to the month of February, 1924, inclusive, i.e., until the issue of new money into circulation. We will now set down the data which refer to the new period commencing March, 1924. The developments which took place during this period and come within the scope of our enquiry were as follows.

The State Bank continued to issue its bank notes, i.e., Tchervontsi. The State Treasury simultaneously issued Treasury notes in denominations of 5, 3 and 1 roubles; silver coins in denominations of 1 rouble, 50 kopeks, 20 kopeks, 15 kopeks, and 10 kopeks; copper coins in denominations of 5, 3, 2 and 1 kopeks and provisional notes in denominations of 5, 3, 2 and 1 kopeks (the issue of the latter types of notes has already been discontinued and a portion of them withdrawn from circulation). Whilst no legal rate of convertibility between the Tchervontsi notes of the State Bank and the roubles of the State Treasury was ever established, the rate became firmly fixed in practice through both the State Treasury and State Bank declaring at the outset that they would exchange one Tchervontsi for ten roubles, and ten roubles for one Tchervontsi. It is probable that the average citizen never even imagines that the existing connection between the two currencies is not decreed in any legislative enactment, but is merely maintained as a result of the

joint monetary policy of the Government and the State Bank. The relation between the two currencies did not however as a matter of fact become established at once, although this was by no means due, as it may seem at first, to the population having preferred one form of currency to the other. In the period after the Reform, and following on the stabilisation of the rate of the Soviet money tokens and the penetration into circulation of the first Treasury notes, the country experienced an acute shortage of "small change," a shortage which was only very gradually overcome. The circulation of the Soviet tokens on the eve of the Reform was far more rapid than that of the Tchervontsi. But when owing to the stabilisation of the rate of exchange of the Soviet money tokens their depreciation was arrested, there immediately followed a reduction in the rapidity of their circulation. No one was any longer bent on replacing them by other forms of money, and they continued to lie in tills and purses, remaining there about as long as bank notes. Hence the sudden and acute shortage of "small change," and the establishment of a premium on notes of small denominations and silver coin. Whilst this phenomenon was only partially observable in the centre, and was but of brief duration there, it took from two to three months to allay the crisis in the Provinces, where the premium soared to a tremendous height. As soon, however, as it became possible to supply the market with a sufficiency of subsidiary money, the equation 1 Tchervontz=10 roubles=1,000 kopeks became firmly established.

Thus even after the Reform there continue to exist two note issuing bodies and two note issues, but virtually, and by reason of the firm connection which exists between the Bank and Treasury notes, there prevails one homogeneous system of currency. Yet the very fact of the existence of two note issuing bodies introduces an element of complication into the technical aspect of the situation which calls for certain preliminary observations in order that the examination of the returns referring to the post-reform period should not confuse the reader.

The Creation of New Purchasing Power by the Treasury after the Reform.

The State Treasury, through the Currency Department of the People's Commissariat of Finance, issued Treasury notes, silver and copper coins, and provisional notes through several different channels and for several distinct objects. In the first place, its issues were devoted to the redemption of the money which was in circulation prior to the Reform and was gradually being withdrawn. Secondly, Treasury notes and coins were issued for the exchange of Tchervontsi notes into money of smaller denominations in proportion to the requirements of the trade turnover in the latter. Thirdly, Treasury issues were used on several occasions by the State Treasury to acquire foreign currency when the supply of the latter was very great. Finally, issues of Treasury notes were used to cover the budgetary deficit.

Whilst issues for the redemption of the old notes and in exchange for Tchervontsi did not increase the volume of money in circulation, since the redeemed notes were destroyed and the Tchervontsi which were received in exchange were withdrawn from circulation; it was otherwise with issues for the purchase of foreign currency and for the purpose of covering the deficit. Through the exchange of Tchervontsi notes into Treasury notes, silver and copper coin, the State Bank's note issues become interlaced with the Treasury issues of notes and metallic money and, in order to obtain the aggregate figure of money in circulation at any given time, it is therefore necessary, not only to add up the Bank and Treasury issues, but to take into consideration also the exchange operations which are carried out by the State Treasury. The foregoing observations must be borne in mind when the figures given below are considered.

The State Bank's Issues.

We will first examine the issues of bank notes. The last figures we gave in the sixth chapter referred to the month of February. We will therefore now continue to review the position beginning with March 1st.

BANK NOTES TRANSFERRED BY THE ISSUING DEPARTMENT
OF THE STATE BANK TO THE CHIEF PAY-OFFICE OF
THE BANK'S BOARD.

			Transferred during month. (In thousands of Tcharvonts).	Aggregate issue at 1st of month.
1924.				
March .. ..	..	..	1,000	32,800
April .. ..	..	..	1,400	33,800
May .. ..	..	..	1,500	35,200
June .. ..	..	..	2,050	36,300
July .. ..	..	..	3,000	38,750
August .. ..	..	..	4,875	41,750
September ..	..	..	5,732	45,233
October .. ..	..	..	4,334	51,887
November ..	..	..	1,508	56,211
December ..	..	..	1,878	57,719
1925.				
January .. ..	..	..	4,572	59,597
February .. ..	..	..	1,030	55,025
March .. ..	..	..	—	56,055

During January and February, 1924, the aggregate figure of bank notes issued by the Issuing Department of the State Bank amounted to 2,300,000 and 2,500,000 respectively. In March, April and May as shown above, the monthly issues did not exceed 1,500,000. Thus the first three months after the Monetary Reform (i.e., the months when the Reform was being carried through) were characterised by a contraction of new bank note issues. This corresponded, on the one hand, to the requirements of trade, the months of March, April and May even prior to the war having usually witnessed a falling-off in the demands for accommodation by the State Bank. But it was also a result of the deliberate policy adopted by the Financial Department.

In the period of the transition to the new system of monetary circulation, measures were adopted to avoid the danger of inflation. A considerable increase in the

note issues over the previous months took place in June, and this increase showed progressive development throughout the months of July, August, September and October, i.e., in the months which are usually attended by an enhanced demand for credits to move the cerealcrops, the cotton crops in Turkestan and Transcaucasia, and for the collection of other forms of raw materials. In the last two months of 1924 the demand for fresh purchasing power again experienced a contraction. Finally, in January, 1925, the new State Bank for the first time since its inception not only stopped its issues, but actually withdrew from circulation four and a half million Tchervontzi, i.e. approximately seven and a half per cent. of the aggregate figure of bank notes issued up till the beginning of 1925.

In the practice of every note-issuing bank such a return-flow of bank notes is of course usual. In the case of the Soviet State Bank this phenomenon did not occur until 1925, and principally for the following reason: industry and trade, the rehabilitation of which began in 1921, were for a long time insatiable in their demands for new credits, faced as they were with the necessity of restoring the money part of their capital, of increasing it in proportion to the growth of their output, and finally—a by no means infrequent case—of covering losses sustained in production. It was this latter circumstance, naturally, which was the weakest point in the whole industrial and credit position.

Although we cannot stop to examine the changes which have taken place in the industrial life of the country during the last years, we must however note that, judging from the trend of the note issues of the State Bank, the relations between the credit institutions and industry are now becoming more normal. The State Bank is ceasing to be a body unintermitently issuing new bank notes. Periods come when these notes—as is the case in all other countries—begin to flow back to the issuing bank.

The Cover of the State Bank.

As regards the cover of the Tchervontzi, the changes

during the period under review are shown in the following table :

	Metallic Cover.	Foreign Bank Notes.	Total first class Cover.	Foreign Bills.	Other forms of Cover.	Total.
1904.						
April 1st.	... 17·7%	22·3%	30·0%	1·3%	46·7%	100%
July 1st.	... 23·1%	24·9%	38·0%	1·2%	49·1%	100%
Oct. 1st.	... 25·6%	18·4%	44·0%	0·7%	53·3%	100%
1905.						
Jan. 1st.	... 15·9%	16·6%	42·3%	0·8%	56·9%	100%
March 1st.	... 28·6%	16·6%	45·2%	0·7%	54·1%	100%

For a considerable time the State Bank maintained the portion of the cover consisting of precious metals and foreign currency at a level of 50%. The considerable issues of bank notes in August and the subsequent months, which were required to move the cereal and cotton crops, caused a fall in the ratio of first class cover to the aggregate of notes issued, although the absolute figures over the period showed an increase. It is unlikely that the State Bank will endeavour to re-establish the former level of cover. The view that at the present moment, and under existing circumstances, large gold reserves are a luxury which the national economy of the country can but ill afford, is now rather widely held in Russia. The question of the free convertibility of notes into gold must needs remain for some time outside the pale of practical policy; in the meantime, the accumulation of gold reserves involves a reduction in the importation of goods of which the country stands in need.

Analysis of Treasury Issues.

Simultaneously with the emission of bank notes, issues of new Treasury money, both in the form of coin and notes, were taking place. These Treasury issues began as far back as February and by March 1st had reached an aggregate figure of 23,851·3 thousand roubles.

ISSUES OF NEW TREASURY MONEY.

		Issued during the month.	Aggregate issues at end of each month.
		(In thousands of Roubles).	
1924.			
March	.. ..	44,118·6	23,632·3
April	.. ..	40,842·4	67,549·9
May	.. ..	47,859·7	108,592·2
June	.. ..	36,468·3	156,452·0
July	.. ..	33,970·0	182,920·3
August	.. ..	29,228·0	216,890·3
September	.. ..	30,653·0	246,118·3
October	.. ..	29,043·7	276,171·3
November	.. ..	16,486·0	305,215·0
December	.. ..	10,115·7	321,701·0
1925.			
January	.. ..	13,606·1	331,816·7
February	.. ..	7,328·8	345,421·8
March	.. ..	—	353,151·6

The extent of the Treasury issues was determined by the necessity of redeeming the money which circulated in the country prior to the Reform, and by the necessity of covering the monthly budgetary deficits and meeting the requirements arising from the demand for money of lower denominations in exchange for bank notes. The maximum intensity in these three categories of demand for Treasury issues was in the three months of March, April and May; but more new money was issued during this period, and less in the subsequent months, than is actually shown in the foregoing table.

As the redemption of the old money, and the exchange against Tchervontsi was carried out at all the local branches of the People's Commissariat of Finance, which are scattered throughout the huge territory of the Union and are frequently connected with the railway system by extremely primitive and unsatisfactory means of communication, it is but natural that the returns concerning these operations in many districts should have reached the Currency Department of the Commissariat of Finance with considerable delays. Although this circumstance does not impair the records concerning the aggregate

volume of currency in circulation, since the issues which covered the budgetary deficits were registered at the time the money was actually transferred from the Central Department. It nevertheless somewhat invalidates the accuracy of our picture of the progress in the operations both of redemption and exchange.

We have already pointed out above that the Treasury issues fulfilled several distinct objects. The data set out in the subjoined table will show the extent to which these issues were devoted in each separate case. The aggregate figure of the Treasury issues at November 1st amounted to 305,215·0 thousand roubles. It was made up as follows :

	Thousand roubles.
Notes used for the Redemption of Money in circulation prior to the Reform	28,762·2
Notes exchanged for Tchervontzi	146,733·5
Notes used for the Purchase of Foreign Currency	35,583·6
Notes used to cover Budgetary deficits	93,115·7

These figures serve to confirm what we have already stated, namely, that to obtain the total sum of money in circulation, the mere addition of the Bank's and the Treasury's note issues is not sufficient, since a large amount of Tchervontzi were taken in exchange for Treasury money and withdrawn from circulation.

Total Figure of Monetary Media in Circulation.

One other circumstance must be taken into account. The following is the manner in which the State Bank issues its notes. There is a special Issuing Department which is controlled by a special Council. In proportion to the securities which are handed over to the Issuing Department, precious metals, foreign currency, short term bills, etc., this Department hands over bank notes to the Chief Pay-office of the Board of the State Bank which distributes them to the Branches of the State Bank, or uses them in the granting of credits. A proportion of the bank notes always remain in the tills of the State Bank, and is included in the aggregate figures of bank notes

issued by the Issuing Department of the bank, as shown above. In order to obtain the actual amount of money in circulation, one should, therefore, deduct from the figure of the bank note issues, not only the bank notes exchanged for Treasury notes, or coin, and withdrawn from circulation, but also the amount of bank notes which remain for the time being in the tills of the State Bank.

Only by this means can we obtain a true figure of the amount of currency in circulation, the details of which are given in the following table :

MONEY IN CIRCULATION ON MARCH 1st, 1905.
(In thousands of Roubles).

Bank notes	..	576,868·3	..	..	51·6%
Treasury notes	..	235,925·7	..	..	32·3%
Silver coin	..	91,559·3	..	..	12·6%
Copper coin	..	2,728·8	..	..	0·4%
Provisional notes		22,933·8	..	..	3·1%
Total	..	<u>730,019·9</u>			<u>100·0%</u>

During the year the aggregate figure of the currency in circulation increased from 374 million to 730 million roubles, i.e. it almost doubled.

Foreign Exchange Rate of the Rouble.

Whilst the rate of exchange of the rouble showed an improvement over the period, its purchasing power on the internal market remained almost unaltered. The increase in the volume of currency, the reasons for which have already been given, was even greater by a little than had been expected at the time of the introduction of the Reform. The foreign exchange rates underwent a sharp adjustment during the early stages of the Reform, experiencing a drop of some ten per cent. during March. The circumstances which contributed to cause this movement were threefold. The first of these was the favourable character of the balance of trade and balance of payments during the period. The second cause was the policy of the State Bank, which during the three months when the Reform

was in process of being carried out, carefully developed its assets, whilst contracting its liabilities.

The third cause was the reduction of the demand on the part of the population for foreign bank notes as a means of saving. Although the dollar never came to play the same part in Russia that it did in certain countries of Central Europe, which experienced an acute monetary crisis, the amount of dollars, and to a lesser extent of pounds sterling, which were held by the population in Russia, was nevertheless considerable. As a result of the Reform, foreign bank notes were, however, rapidly driven out by national money; and not only did the demand for the former experience a shrinkage, but the supply of them became considerable.

The rates for dollars and pounds, as quoted on the Foreign Exchange section of the Moscow Bourse, was as follows:

		Dollar Rate.			Pound rate.		
1924.							
March 1st	2 roubles,	11	kop.	..	9 roubles,	67	kop.
April 1st	1 ..	94½	..	..	8 ..	36	..
July 1st	1 ..	94½	..	..	8 ..	41	..
Oct. 1st	1 ..	94½	..	..	8 ..	67	..
1925.							
Jan. 1st	1 ..	94½	..	..	9 ..	20	..
March 1st	1 ..	94½	..	..	9 ..	25	..

Outside rates, or the so-called rates of the free market, differed somewhat from the quotations of the Bourse; but the difference was insignificant, fluctuating between one and two per cent.

The Purchasing Power of Money after the Reform.

It remains in conclusion to set down particulars concerning the purchasing power of money in relation to commodities after the Reform, or in other words to deal with the index numbers of commodity prices.

In Russia, as in many other countries, there exists a multiplicity of index numbers constructed in different manners. In order to obtain sufficient material from which to draw our deductions, we will choose two from amongst the total, namely, the All-Russian Index Number

of Wholesale Prices of the State Planning Commission, and the Index Number of Retail Prices of the Institute for the Study of Market Conditions (1,000 in both cases represents 1923 prices).

	Index Number of Wholesale Prices of the State Plan- ing Commission.		Index Number of Re- tail Prices of the In- stitute for the Study of Market Conditions.	
1924.				
March 1st	1,930 ..	..	2,070
April 1st	1,808 ..	..	2,110
May 1st	1,752 ..	..	2,175
June 1st	1,658 ..	..	2,161
July 1st	1,690 ..	..	2,145
August 1st	1,754 ..	..	2,294
September 1st	1,725 ..	..	2,230
October 1st	1,643 ..	..	2,058
November 1st	1,636 ..	..	2,074
December 1st	1,682 ..	..	2,030
1925.				
January 1st	1,720 ..	..	2,090
February 1st	1,750 ..	..	2,120
March 1st	1,853 ..	..	—

The figures in the last table call for some comment. They show in the first place that changes in the index number of wholesale prices did not take place on parallel lines with the changes in the index figure of retail prices. They also reveal that the nine months following the Monetary Reform witnessed both increases and decreases in the general level of prices. Finally, they demonstrate that during the period in question wholesale prices fell by approximately 15 to 16 per cent., retail prices remaining on the same level as they were at the very beginning of the Reform.

The divergence in the trend of wholesale and retail prices is explained by the fact that the former are chiefly the prices of the State industrial and trading concerns—State Trusts and Syndicates—which were cut in respect of a large number of commodities both during the Reform and in August and September, 1924, whilst retail prices

are principally established in the course of private trade. Although wholesale prices were by no means always fixed on the basis of accurate calculations, they were nevertheless to a large degree regulated by the cost of production. Retail prices on the other hand provided a more accurate reflection of the conditions of supply and demand on the market, and these conditions during the period in hand were such that the retail trader was able to keep prices up.

The demand for the products of industry increased considerably in 1924, and the output could not keep pace with this enhanced demand. Hence the increased discrepancy between the regulated wholesale prices and the free retail prices in the period following the Reform.

We cannot here go into an analysis of the fluctuations in the two categories of prices during the past year; suffice it to say that a potent factor was the failure of the harvest of 1924, which caused grave anxiety in the month of August. Although the general apprehension proved subsequently somewhat exaggerated, this failure of the crops nevertheless exerted a steady influence on prices beginning from the month of December.

Conclusion.

But whatever the condition of the markets may have been in the separate phases of the period under review, the analysis of all the data set down in this concluding Chapter—data in respect of the rates of exchange, prices, Budget, etc.—shows that considerable success has been achieved during 1924 in improving monetary conditions in Soviet Russia.

The country has emerged from monetary chaos and its economic life has begun to develop under conditions incomparably more healthy than those which obtained prior to the Monetary Reform. It would be wrong, of course, to affirm that the whole problem of putting the country's currency in order has been disposed of, that all difficulties attendant upon this task have been overcome, and all dangers circumvented; but that substantial progress has been made is undeniable: and, even if periods of hard struggle to bring about a solution of the problem

of creating a sound monetary circulation enjoying general recognition should loom ahead, one may even now assert with confidence that monetary policy in Russia is developing along sound lines and stands every chance of succeeding in its aims.